



Daniel Mitchell

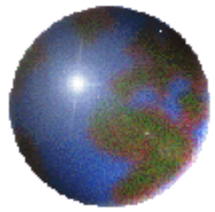
Where do we go from here?

How do public finances and the basic economic principles of fiscal policies determine the fate of a nation?

From 9.15 to 9.55

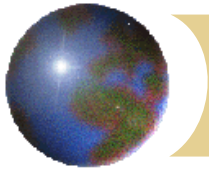
Further details in the agenda.

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SUMMIT



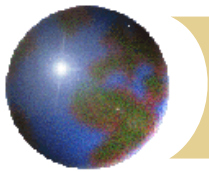
Public Finance and National Prosperity

Miami, 2023

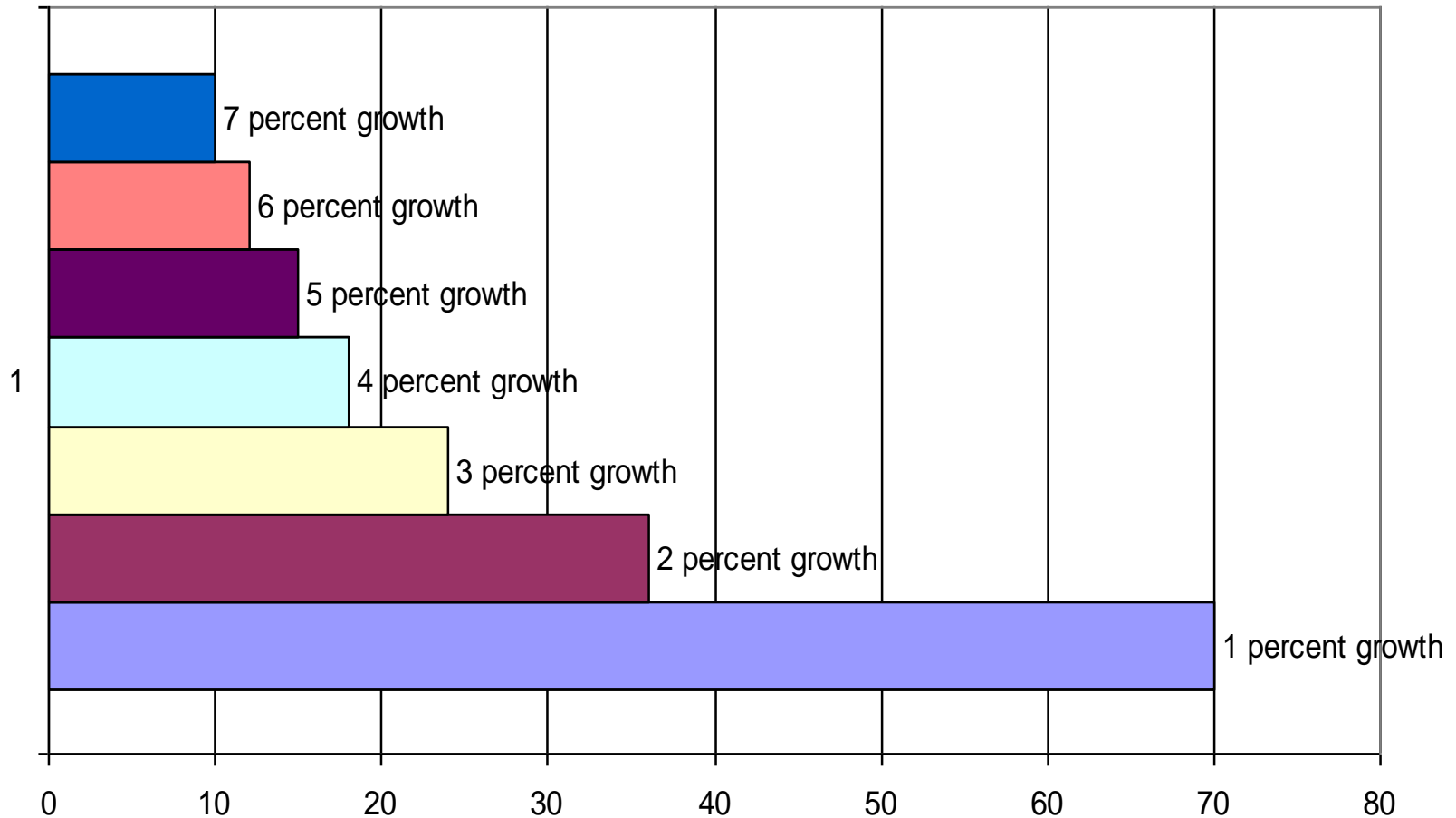


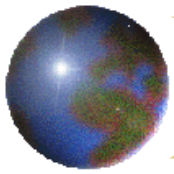
What Is Economic Growth?

- ⊕ More labor
- ⊕ More capital
- ⊕ Better efficiency of labor
- ⊕ Better allocation of capital
- ⊕ Labor and capital are the ingredients
- ⊕ The chef mixes the ingredients

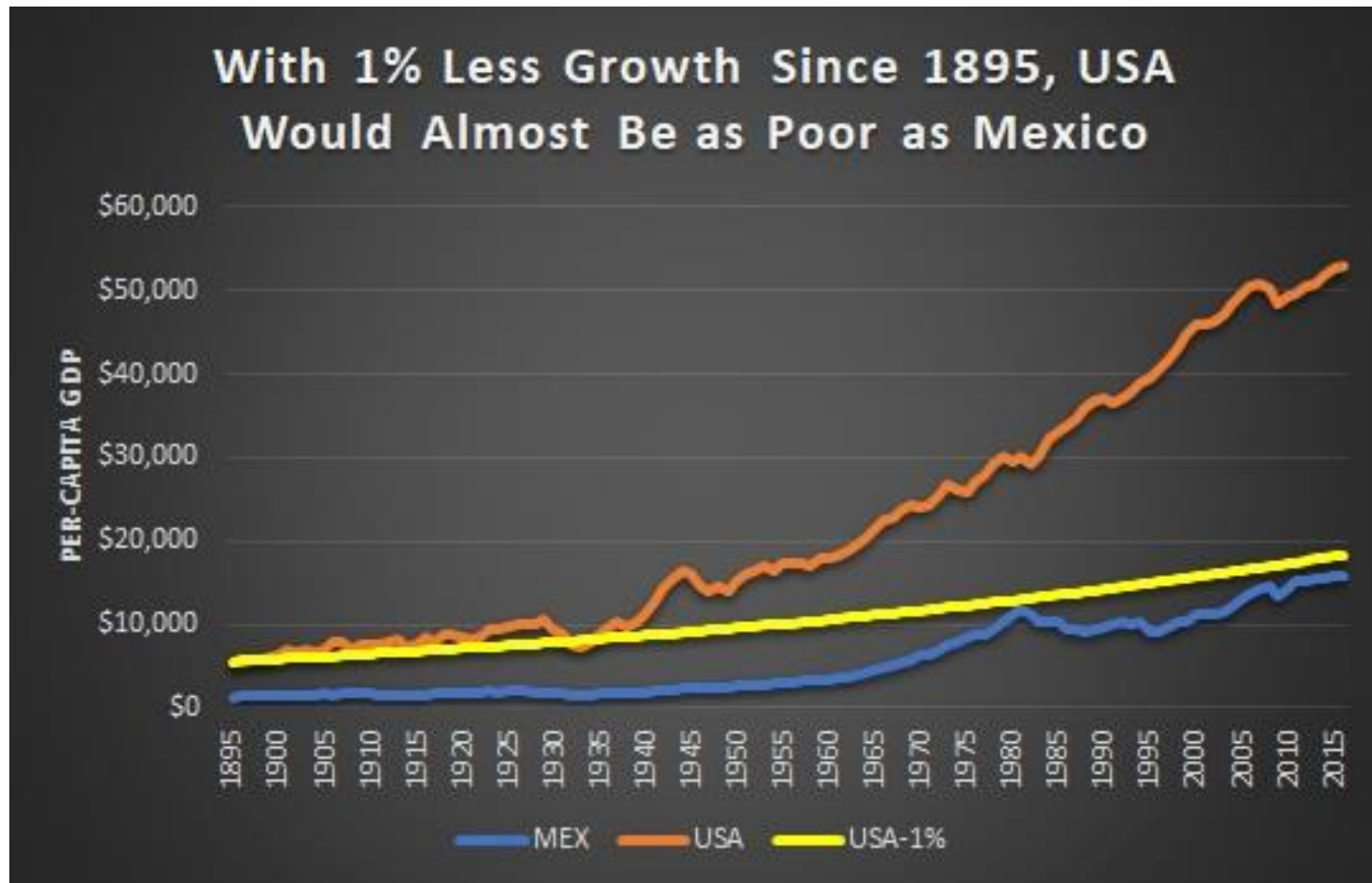


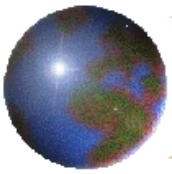
Years Needed to Double Economic Output



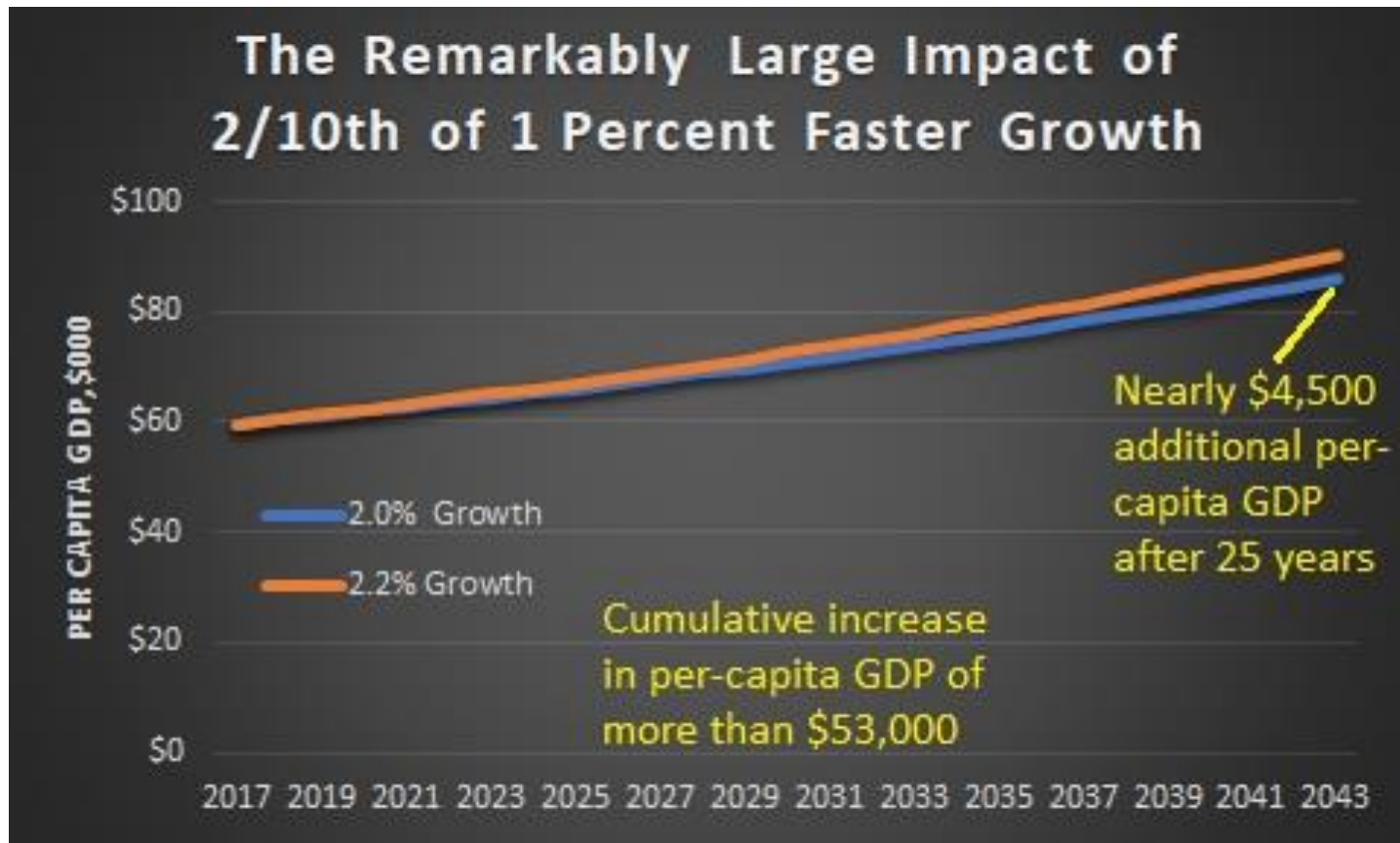


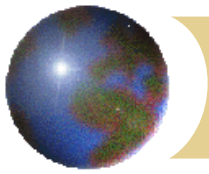
The Real-World Impact of Growth





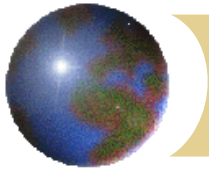
Even Small Changes Matter





Policy Levers

- ✦ Five major ways that government affects long-run growth.
 - ▣ Monetary Policy
 - ▣ Trade Policy
 - ▣ Regulatory Policy
 - ▣ Rule of Law
 - ▣ Fiscal Policy



Why Have a Low Tax Rate?

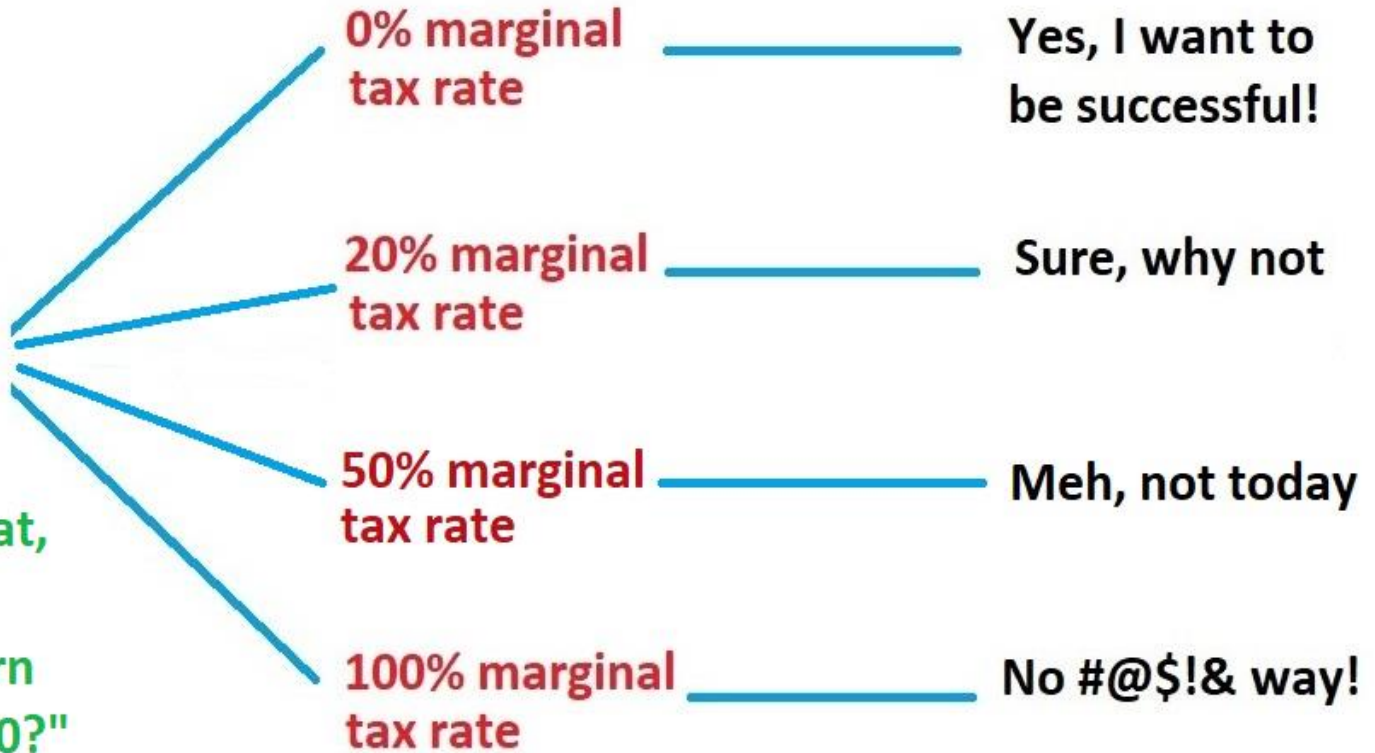
- ❖ The marginal tax rate – the burden on the next increment of income – must be kept low.
- ❖ A low marginal tax rate rewards productive behavior. People will work more, save more, and invest more.
- ❖ Incentives to hide, shelter, under-report income are lower when the marginal tax rate is reasonable.
- ❖ Research indicates that the marginal tax rate should be no higher than 20 percent.



Tax Rates Determine Incentives

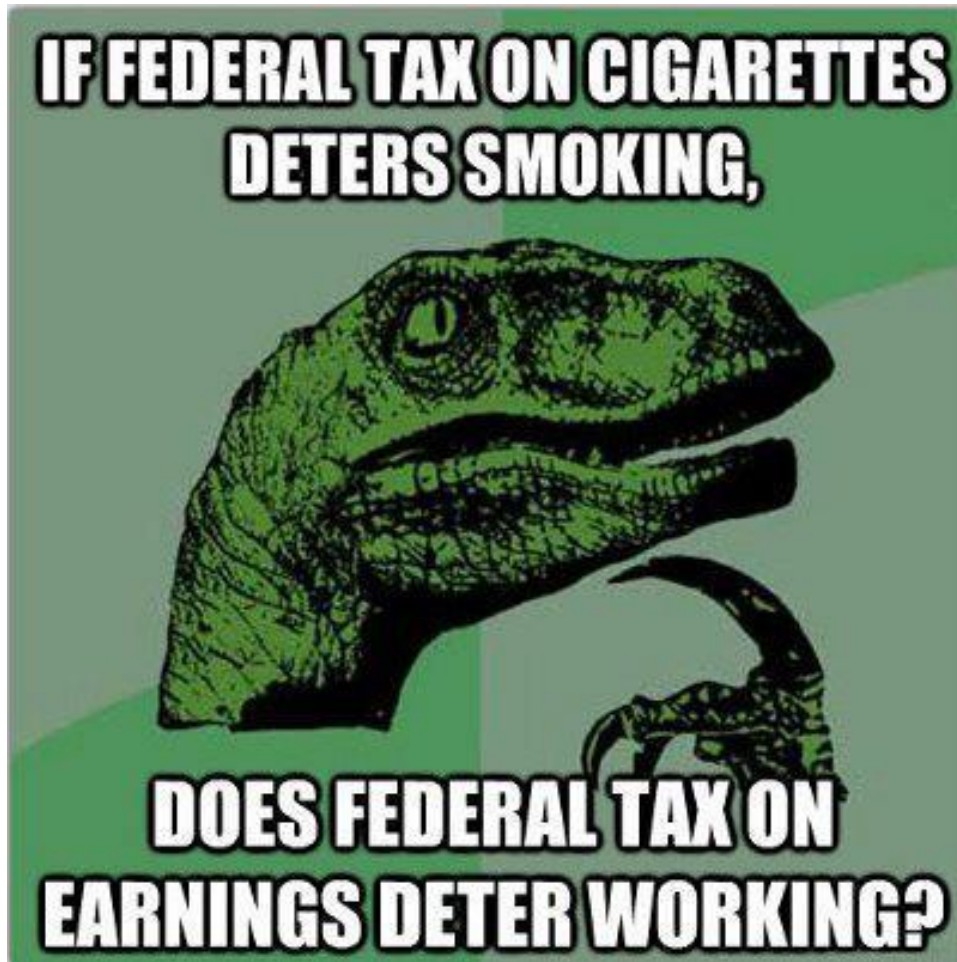


"Should I sweat, sacrifice, and struggle to earn another \$1,000?"





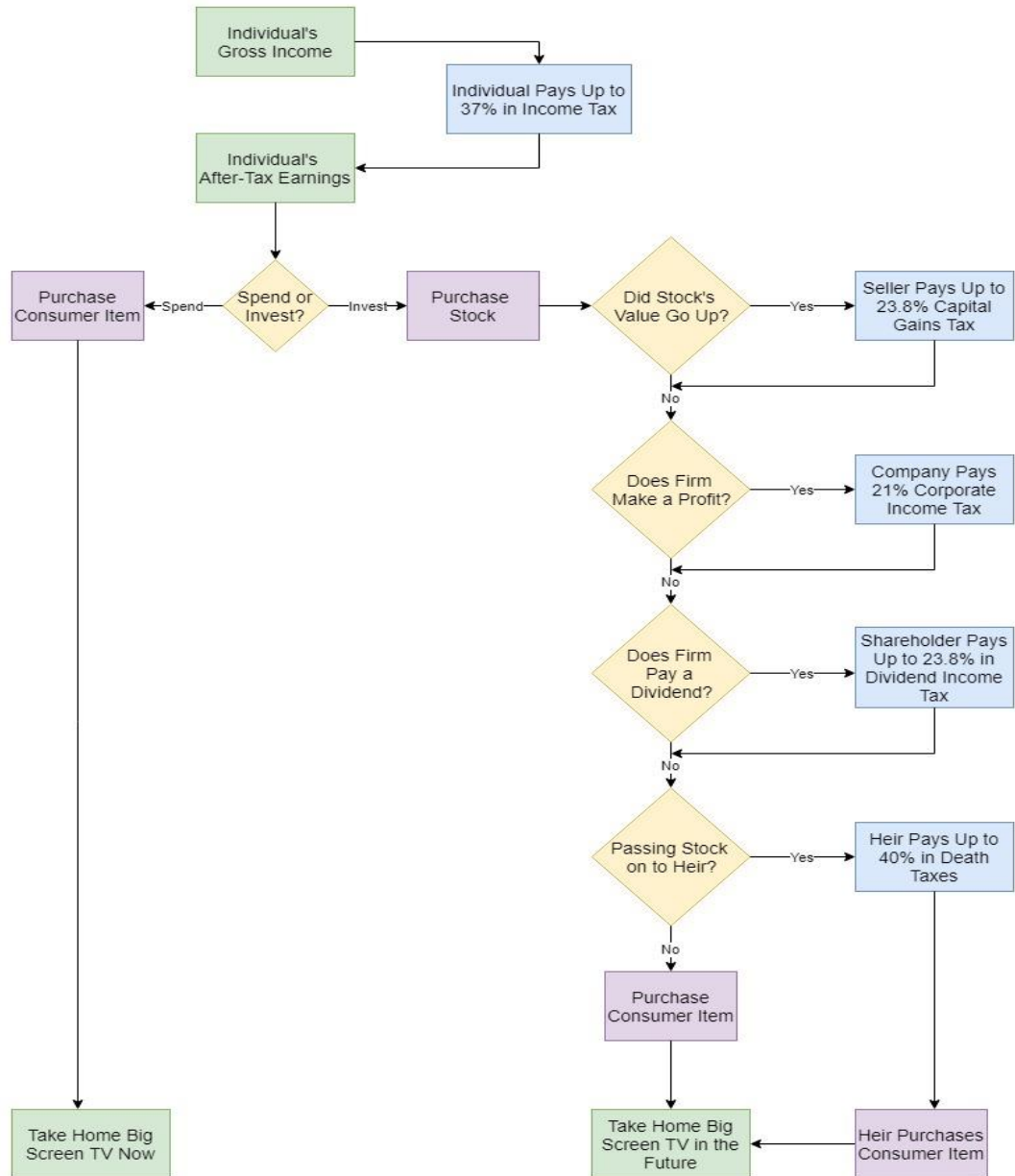
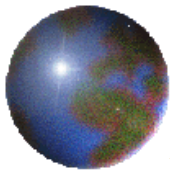
The “Philoso-Raptor” Wonders





Why Tax Income Only One Time?

- ❖ Many nations impose multiple layers of tax on income that is saved and invested.
- ❖ This is the wrong definition of the tax base.
- ❖ Taxes on interest, dividends, capital gains, and inheritances are examples of the discriminatory treatment of capital.
- ❖ This is a self-destructive policy since it harms the activity – capital formation – that all economic theories agree is necessary for economic growth and rising living standards.



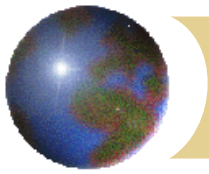


Best Way to Harvest Apples?

🕒 Pick from tree?

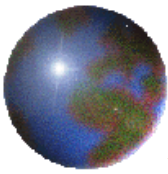
Chop down tree?





Why Neutrality?

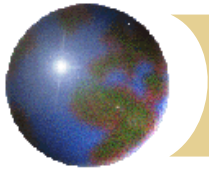
- ✚ Government should not pick winners and losers.
- ✚ Special preferences and penalties distort the allocation of capital and undermine efficiency.
- ✚ Special preferences and penalties also encourage corruption since politicians and powerful groups conspire to create loopholes.





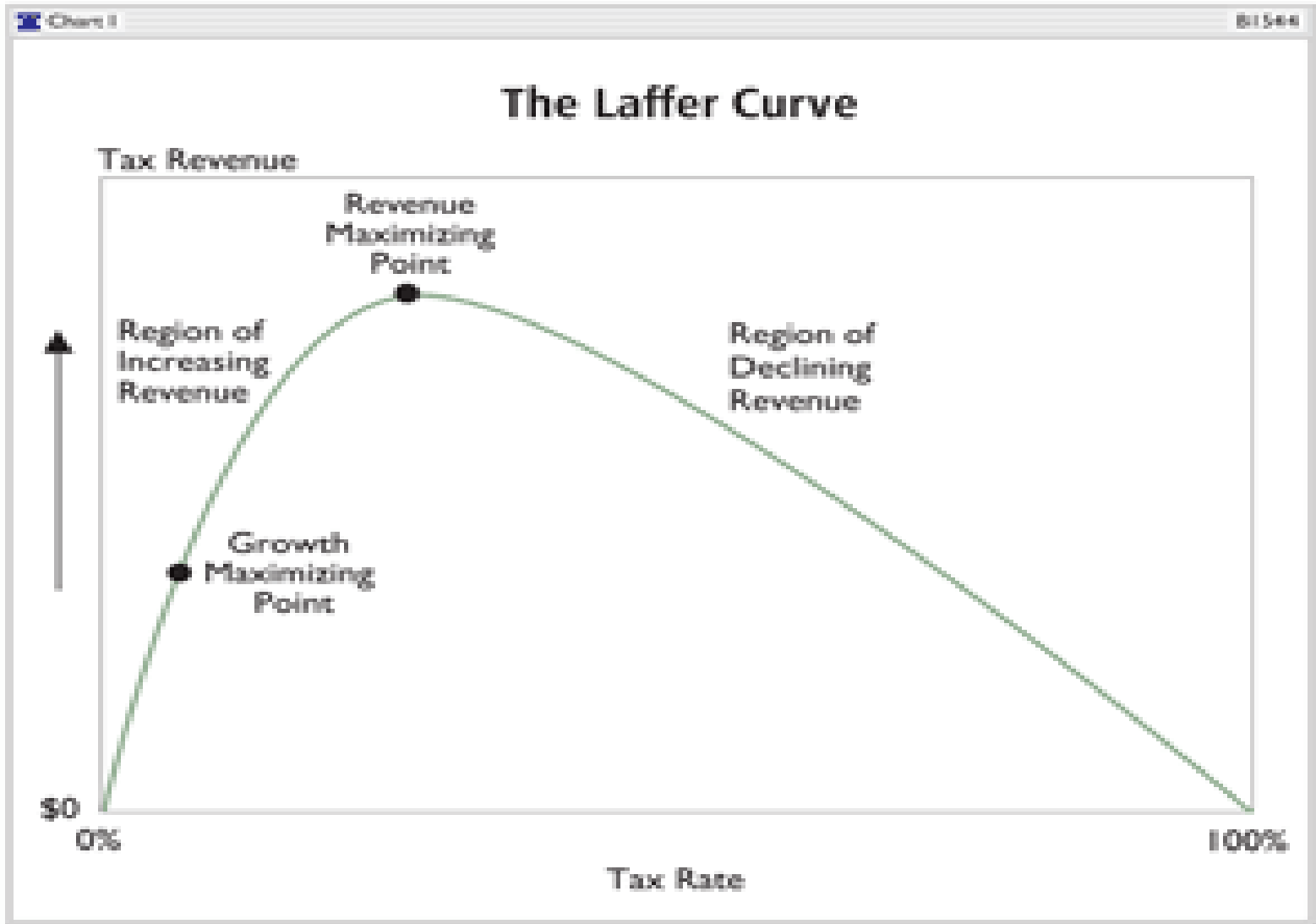
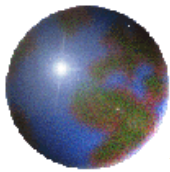
What Happens if Problems Fixed?

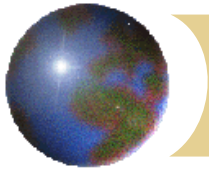
- ❖ If you solve the problems of high tax rates, double taxation, and improper distortions, you get a “flat tax.”
- ❖ The Hall-Rabushka flat tax is the gold standard of tax reform.
 - ❑ One low rate.
 - ❑ No double taxation.
 - ❑ No special loopholes.



The Laffer Curve

- ⊕ Higher tax rates discourage people from earning and reporting income.
 - ⊞ In other words, less taxable income.
- ⊕ To determine the impact of a tax policy change on tax revenue, which effect dominates:
 - ⊞ The rate change?
 - ⊞ The change in taxable income?





Tax Rates, the Rich, and Revenue

- ✦ In 1980, there were 116,800 rich people.
- ✦ Those rich people reported \$36.2 billion of income to the IRS.
- ✦ They paid \$19.0 billion of income tax to the federal government.



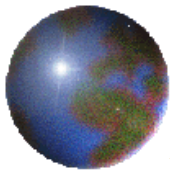
Tax Rates, the Rich, and Revenue

- ✚ In 1980, there were 116,800 rich people.
 - ✚ Those rich people reported \$36.2 billion of income to the IRS.
 - ✚ They paid \$19.0 billion of income tax to the federal government.
- ✚ By 1988, there were 723,700 rich people.
 - ✚ Those rich people reported \$353.0 billion of income to the IRS.
 - ✚ They paid \$99.7 billion of income tax to the federal government.

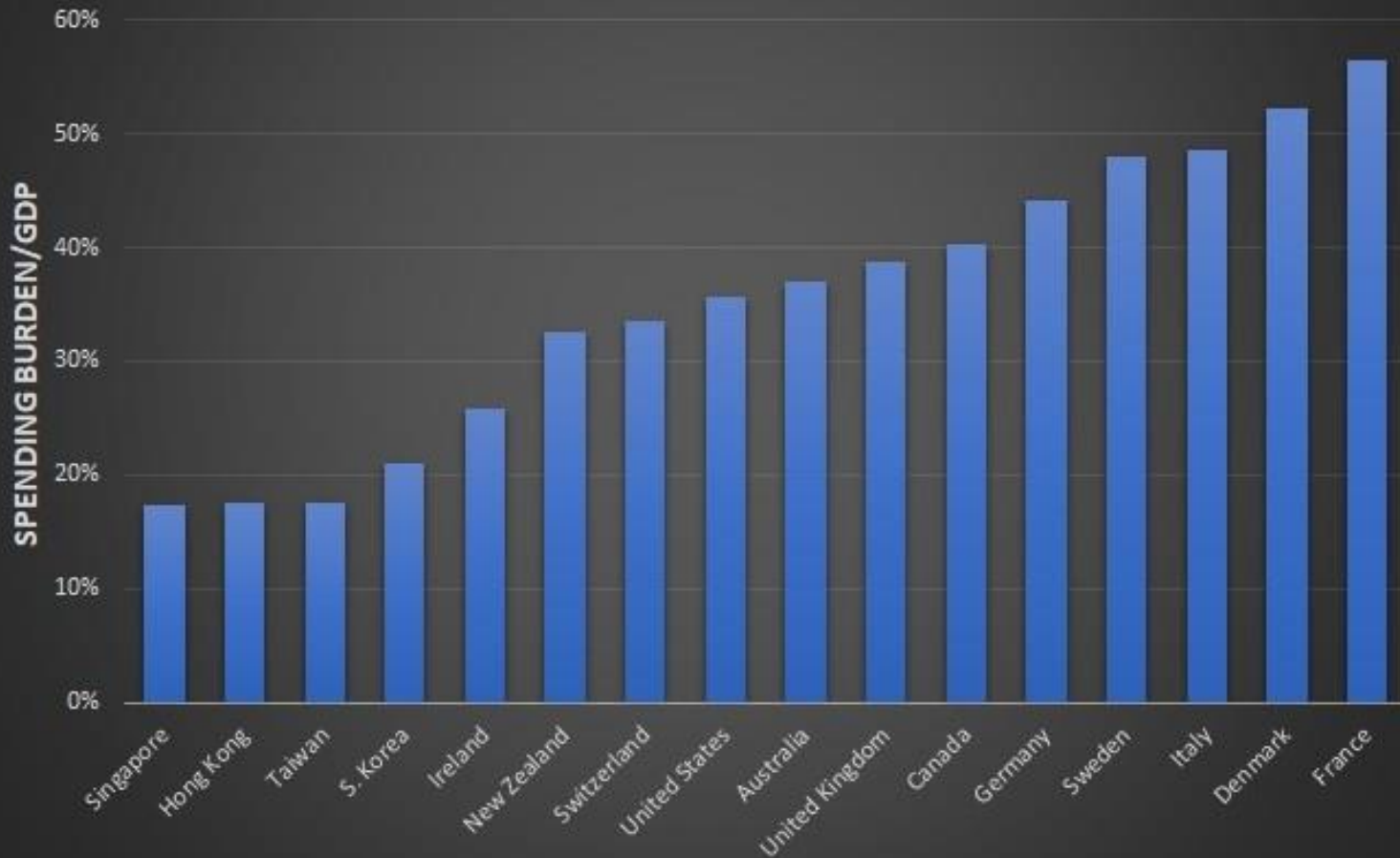


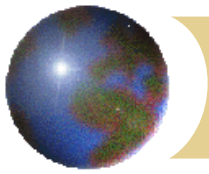
Government Spending and Growth

- ❖ If government spending is zero, presumably there will be very little economic growth.
 - ❖ No contracts get enforced.
 - ❖ No property rights are protected.
 - ❖ No rule of law.
- ❖ Government spending reduces growth, however, when the public sector becomes too large.
 - ❖ Punitive tax rates.
 - ❖ Misallocation of labor and capital.



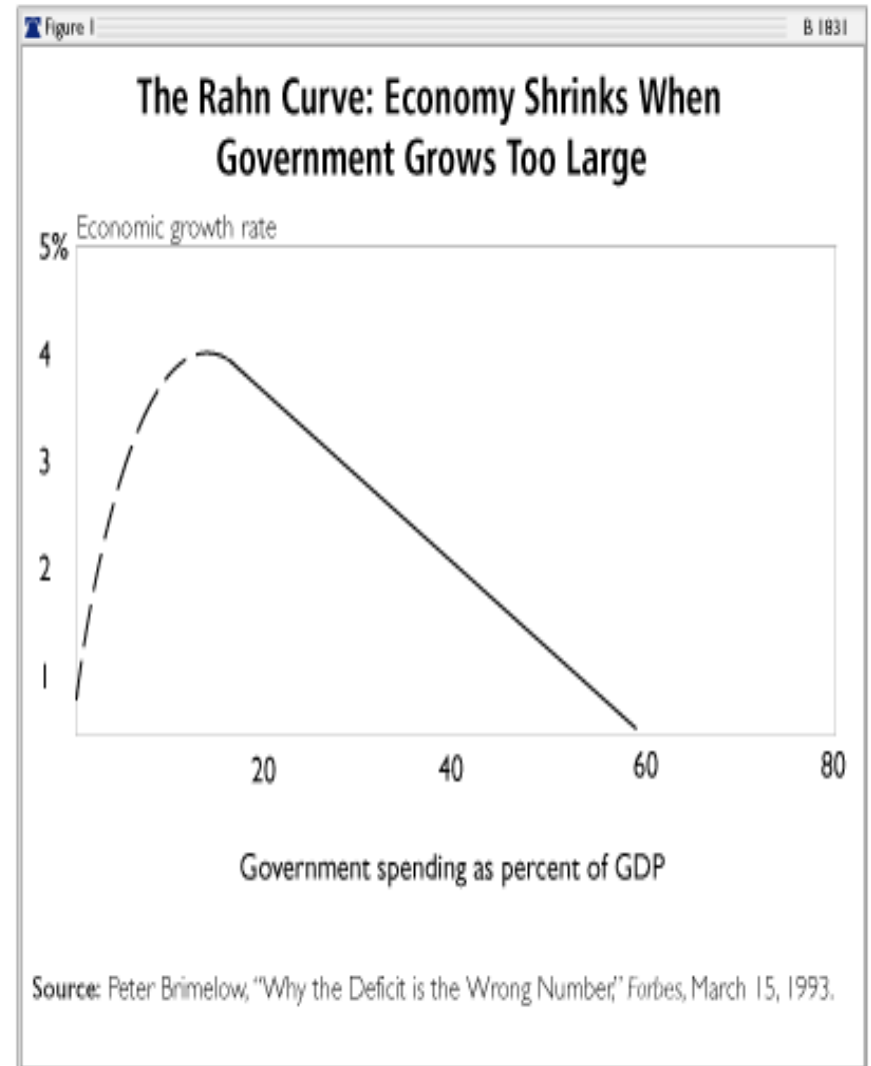
How Much Spending Is Needed for Quality Schools, Roads, and Healthcare?

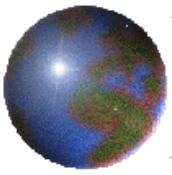




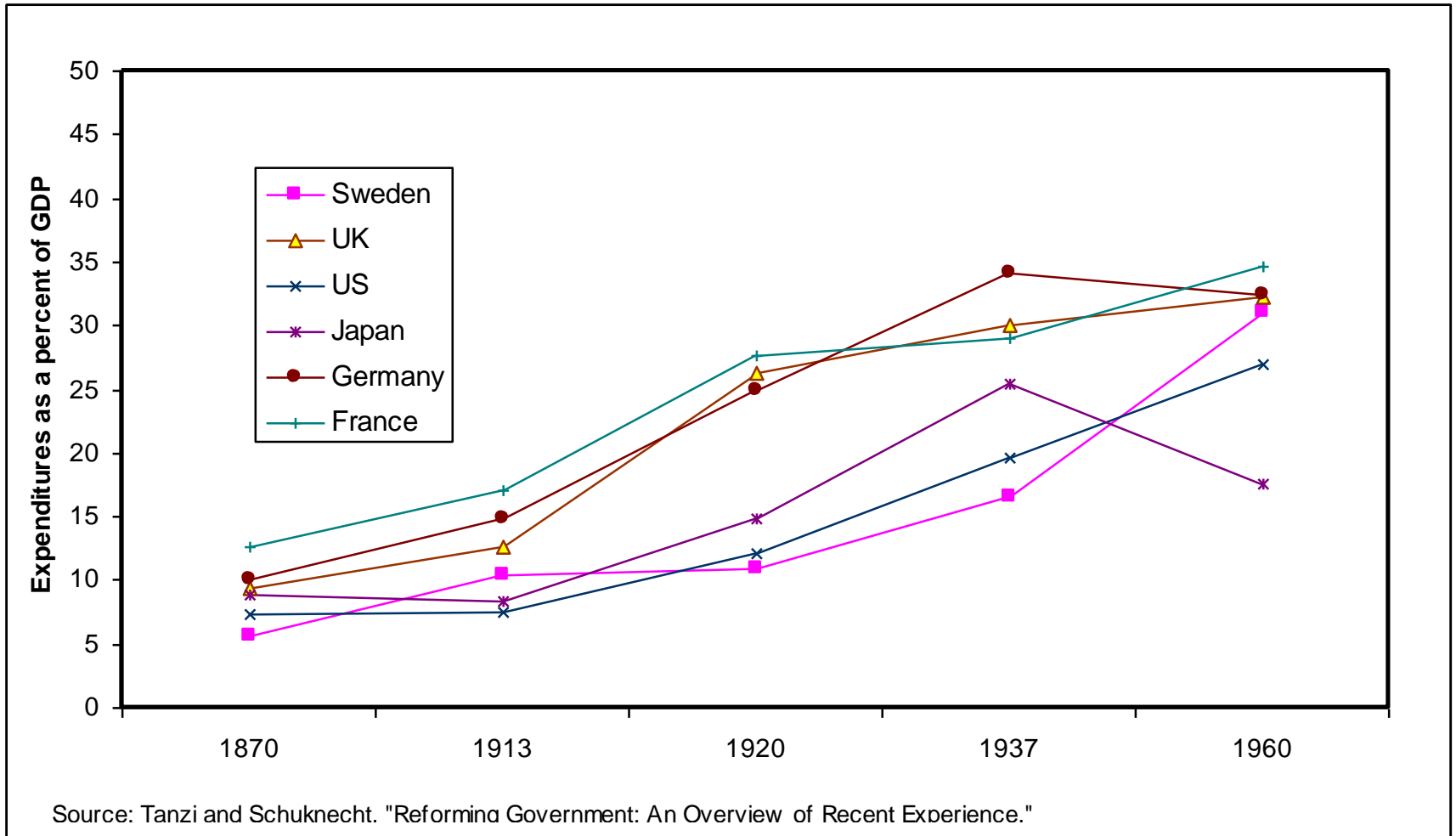
The “Rahn Curve”

- There is a “Rahn Curve” relationship between government spending and economic growth similar to the “Laffer Curve” relationship between tax rates and tax revenue.





Burden of Government Used to be Small





What About Wealthy Welfare States?

- ✚ Aren't many European welfare states relatively wealthy?
- ✚ Yes, but they became rich when government was very small.
- ✚ Once big welfare states were adopted (1960s and 1970s), growth weakened.
- ✚ A nation can tolerate weak growth once it is rich, but a poor nation will never become rich with weak growth.

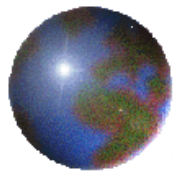


Table 1: Social Transfers as a Percentage of GDP at Current Prices in Select OECD Countries, 1880 to 1995

Country	1880 ^a	1890 ^a	1900 ^a	1910 ^a	1920 ^a	1930 ^a	1960 ^b	1970 ^b	1980 ^c	1980 ^c	1995 ^c
Australia	0	0	0	1.12	1.66	2.11	7.39	7.37	12.79	10.90	14.84
Austria	0	0	0	0	0	1.20	15.88	18.90	23.27	23.43	21.39
Belgium	0.17	0.22	0.26	0.43	0.52	0.56	13.14	19.26	30.38	22.45	27.13
Canada	0	0	0	0	0.06	0.31	9.12	11.80	14.96	12.90	18.09
Denmark	0.96	1.11	1.41	1.75	2.71	3.11	12.26	19.13	27.45	26.44	30.86
Finland	0.66	0.76	0.78	0.90	0.85	2.97	8.81	13.56	19.19	18.32	31.65
France	0.46	0.54	0.57	0.81	0.64	1.05	13.42	16.68	22.55	22.95	26.93
Germany	0.50	0.53	0.59			4.82	18.10	19.53	25.66	20.42	24.92
Greece	0	0	0	0	0	0.07	10.44	9.03	11.06	8.67	14.43
Ireland						3.74	8.70	11.89	19.19	16.20	18.30
Italy	0	0	0	0	0	0.08	13.10	16.94	21.24	17.10	23.71
Japan	0.05	0.11	0.17	0.18	0.18	0.21	4.05	5.72	11.94	10.48	12.24
Netherlands	0.29	0.30	0.39	0.39	0.99	1.03	11.70	22.45	28.34	26.94	25.70
New Zealand	0.17	0.39	1.09	1.35	1.84	2.43	10.37	9.22	15.22	16.22	18.64
Norway	1.07	0.95	1.24	1.18	1.09	2.39	7.85	16.13	20.99	18.50	27.50
Sweden	0.72	0.85	0.85	1.03	1.14	2.59	10.83	16.76	25.94	12.97	19.01
Switzerland	...	...	...	...	...	1.17	4.92	8.49	14.33	...	18.87
UK	0.86	0.83	1.0	1.38	1.39	2.24	10.21	13.20	16.42	11.43	13.67
United States	0.29	0.45	0.55	0.56	0.70	0.56	7.26	10.38	15.03	21.36	22.52

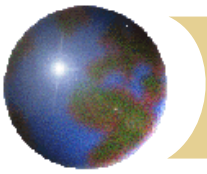
Source: Lindert (2002); OECD (1985)

0 = known to be zero. Blank = not yet a sovereign state. ... = known to be positive, but number is not available.

^a Welfare, unemployment, pensions, health, and housing subsidies.

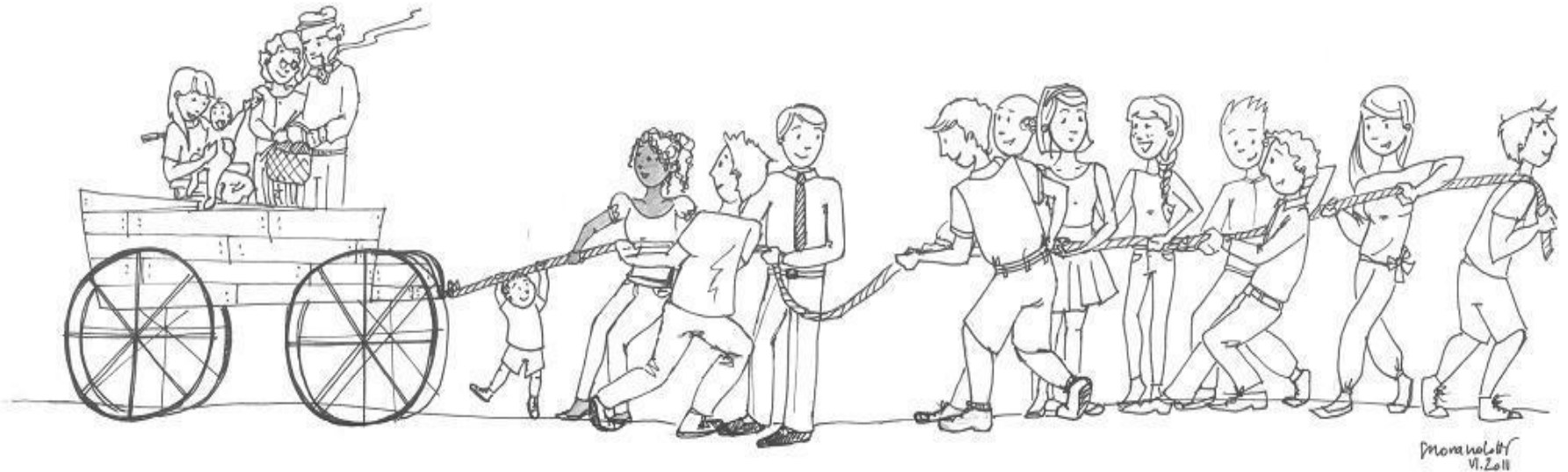
^b OECD old series.

^c OECD new series



Big Government Inevitably...

How the Welfare State Begins





...Erodes America's Social Capital

How the Welfare State Ends

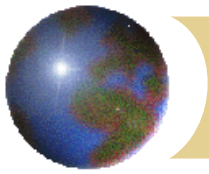




A Road Map for Fiscal Sanity

✚ Three challenges

- ✚ Correctly identifying the problem – big government is the disease. Deficits and debt are symptoms.
- ✚ Figuring out ways to “bend the cost curve” of government spending.
- ✚ Convincing people that liberty is better than dependency.



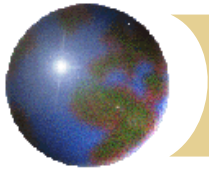
Markets v. Statism

- ⊕ Name a nation that became rich with big government?
 - ❑ Not the USA
 - ❑ Not Sweden
 - ❑ Not Germany
 - ❑ Not the UK
 - ❑ Definitely not Hong Kong and Singapore



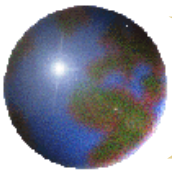
Markets v. Statism

- ✿ Name a nation that with big government that consistently grows faster than a similar nation with small government?
 - ❑ Not France
 - ❑ Not Russia
 - ❑ Not Japan
 - ❑ Not India

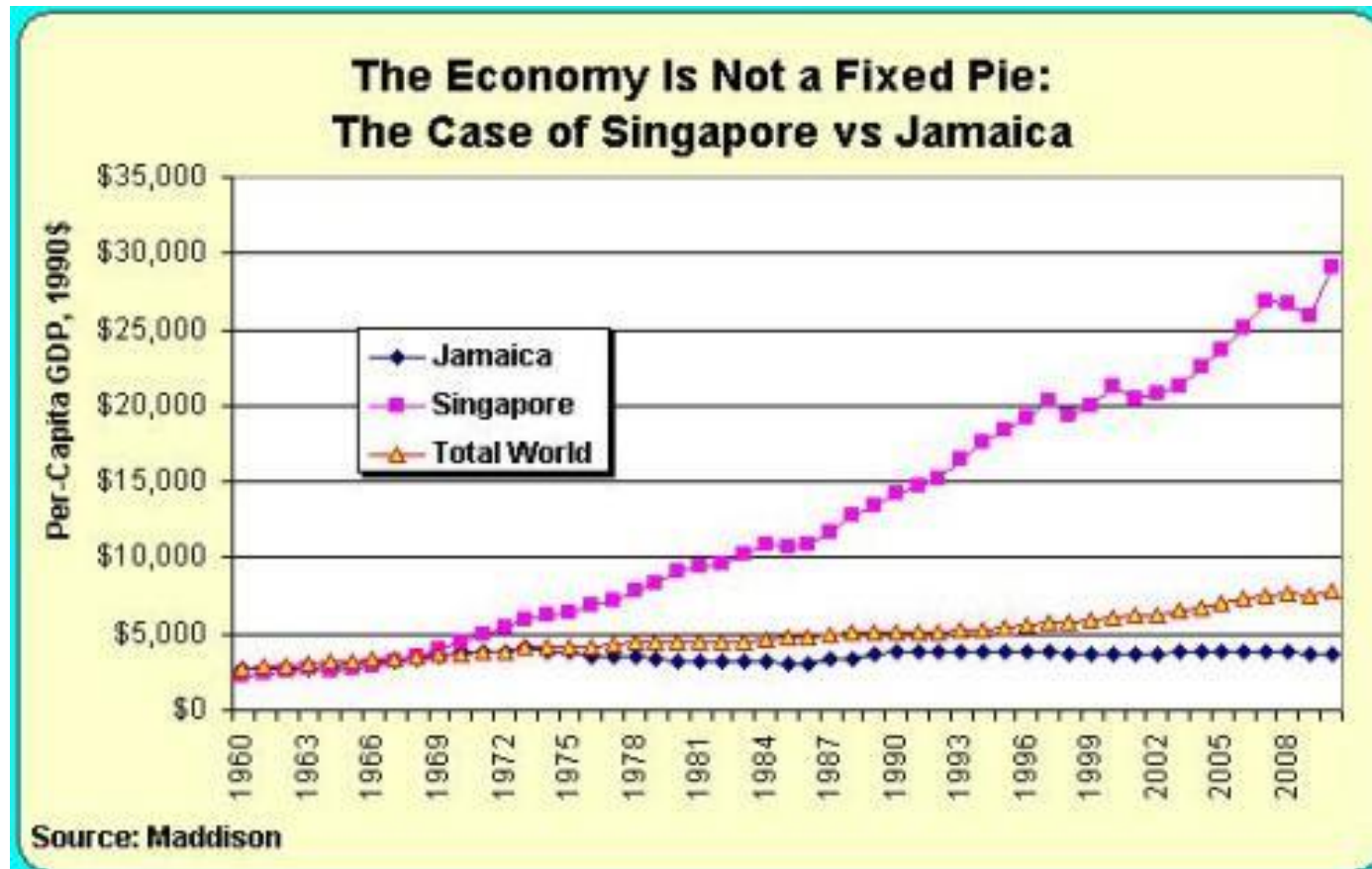


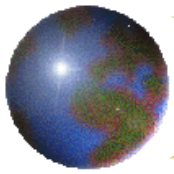
Real-World Evidence

- ✚ Many examples of countries that have become rich with free markets and small government.
- ✚ Many examples of nations that grow faster with pro-market reform.
- ✚ Many examples of jurisdictions with good policy producing good results.

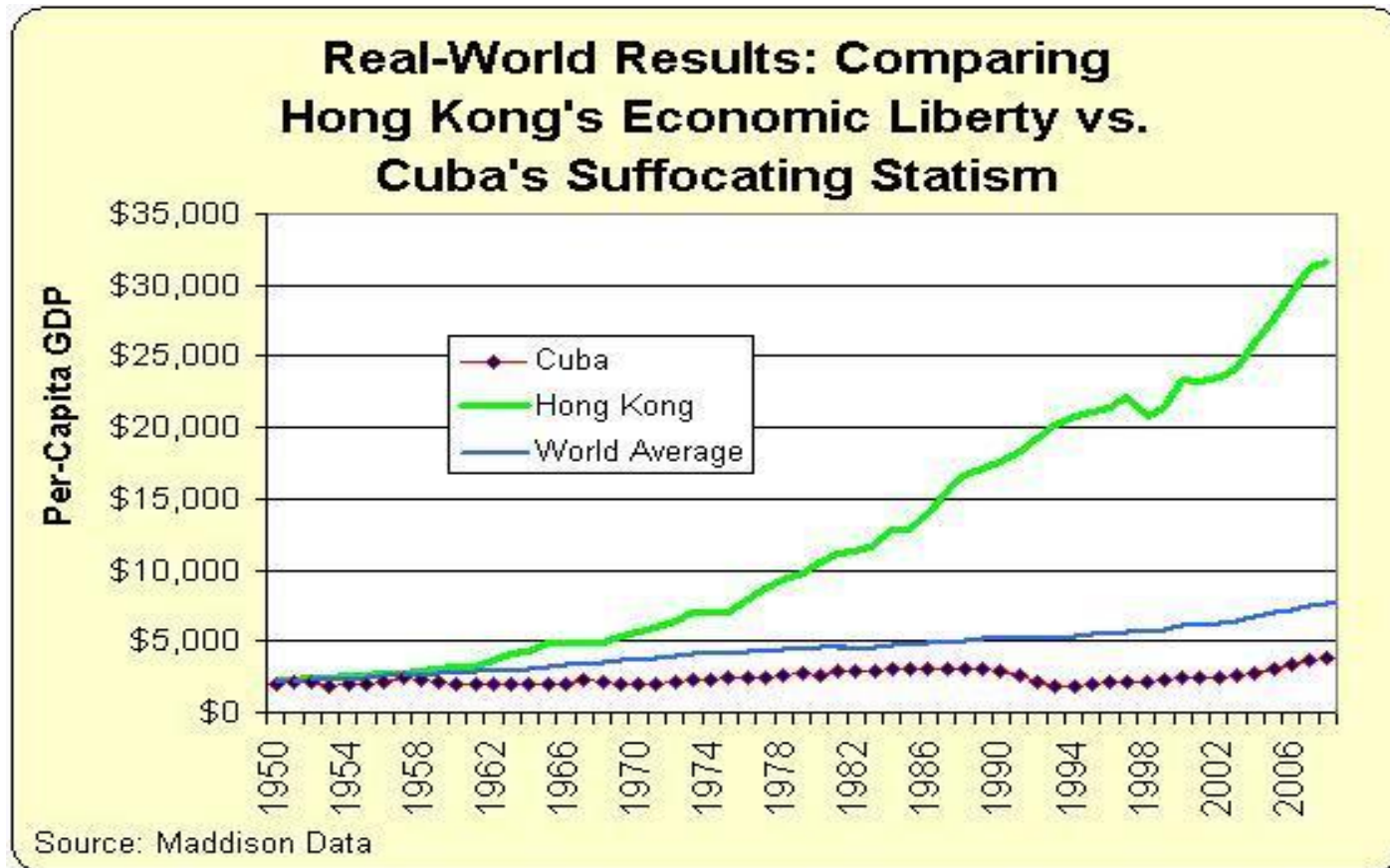


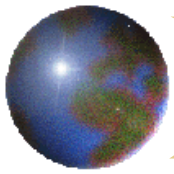
Example #1



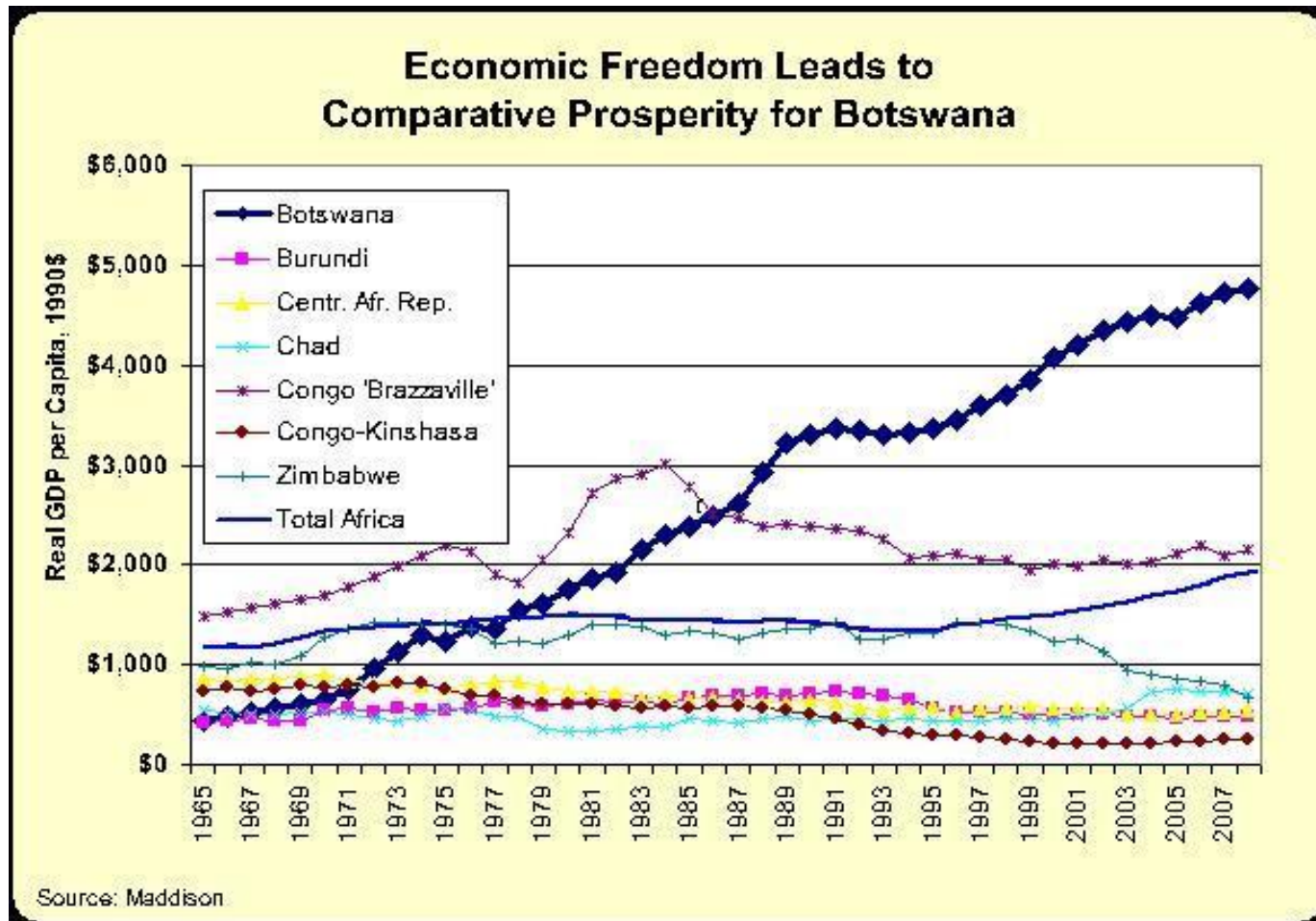


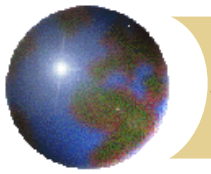
Example #2



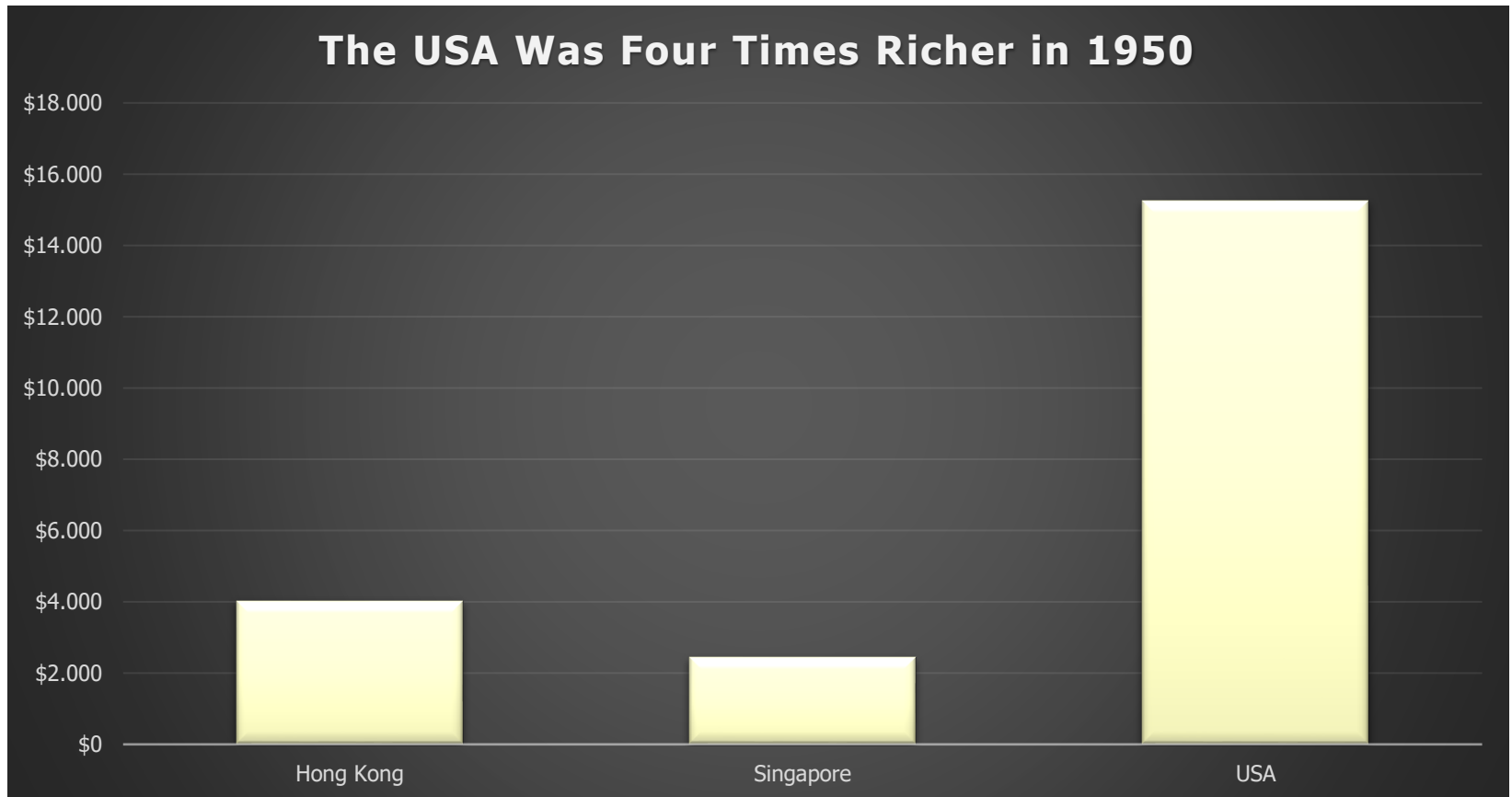


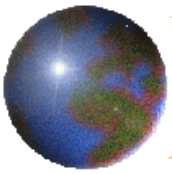
Example #3



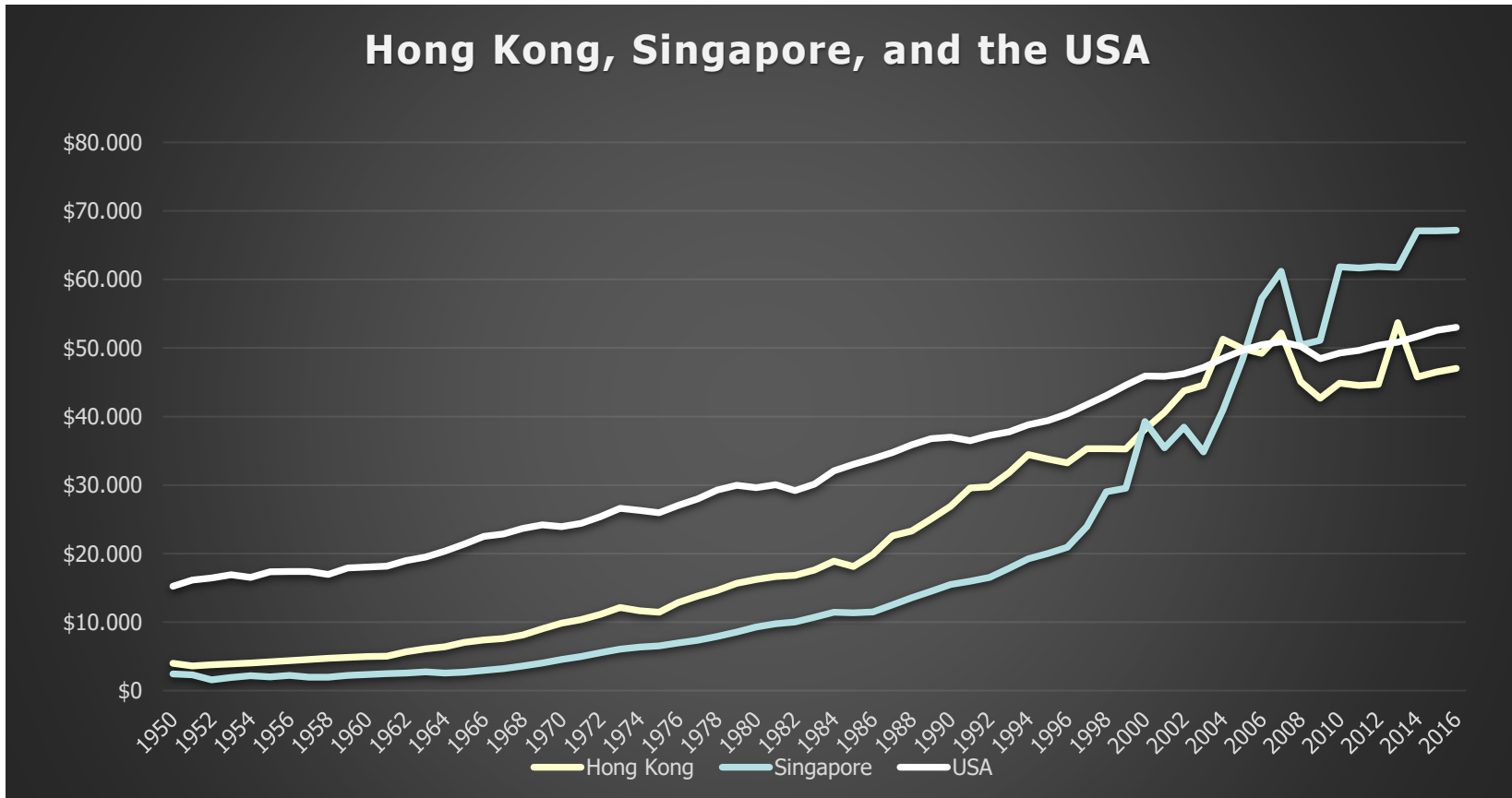


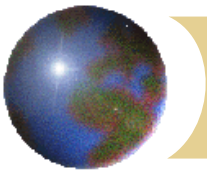
Example #4a



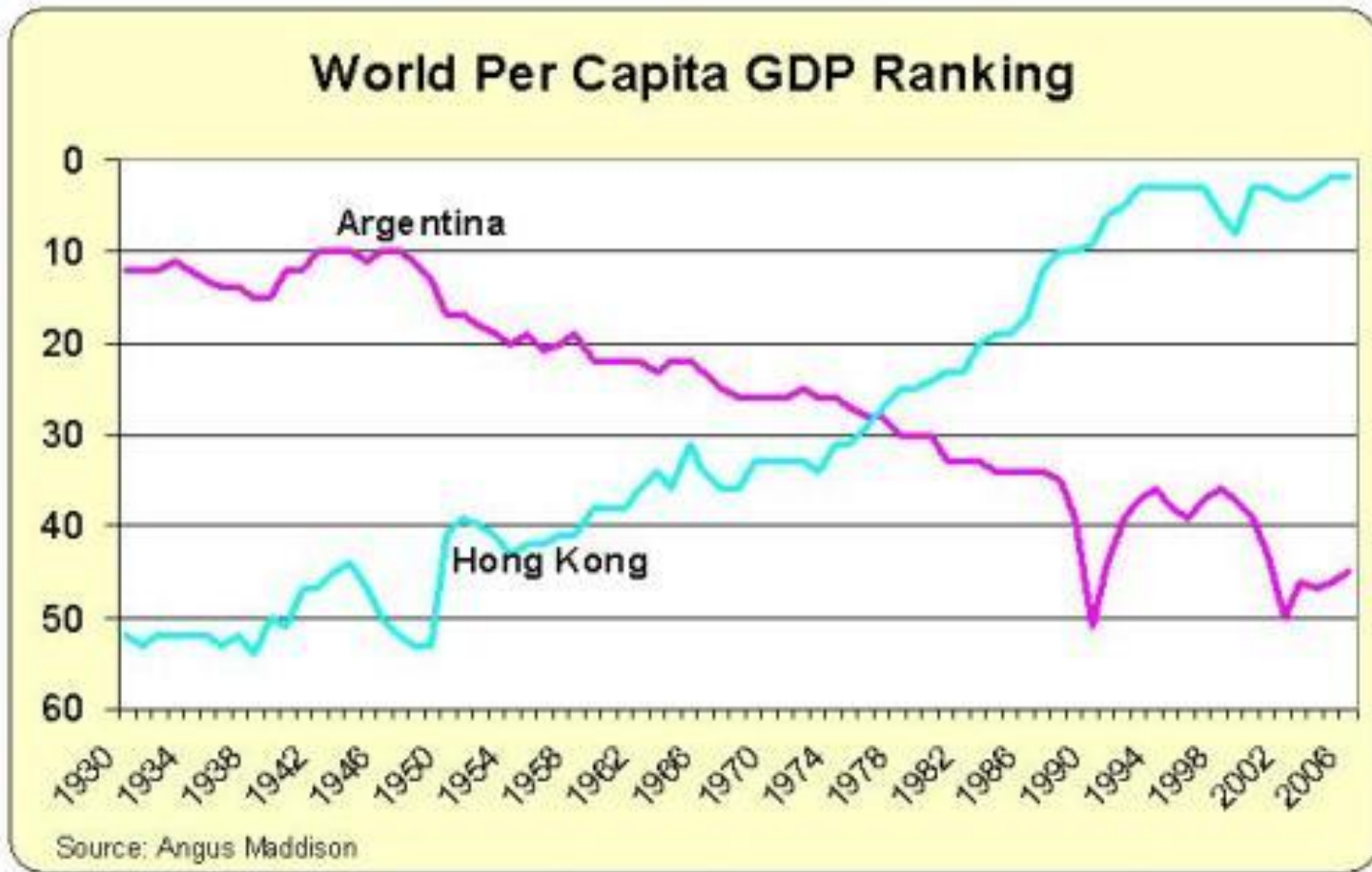


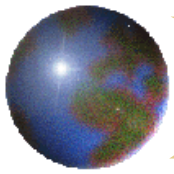
Example #4b



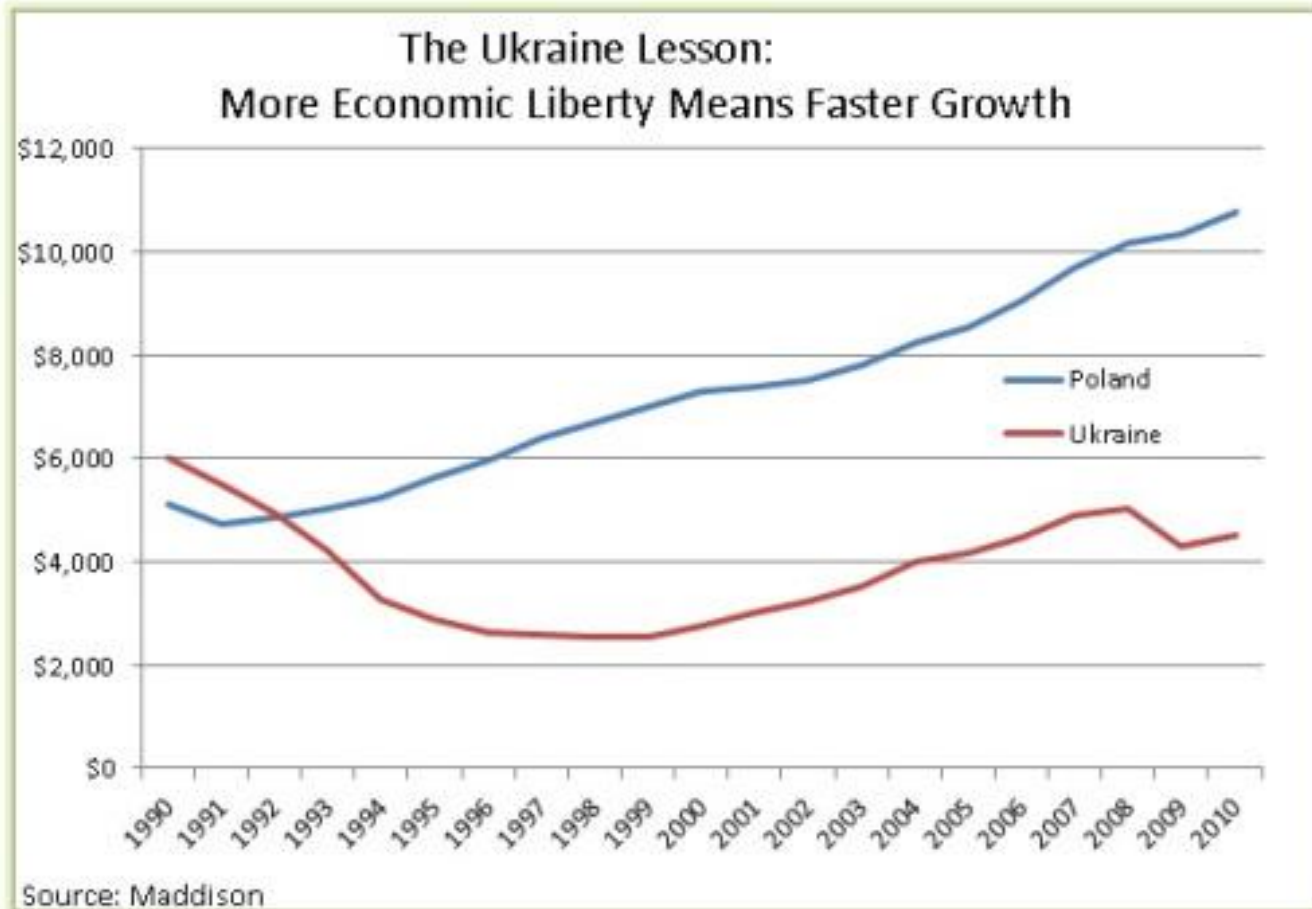


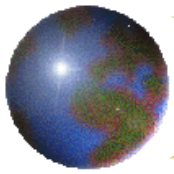
Example #5



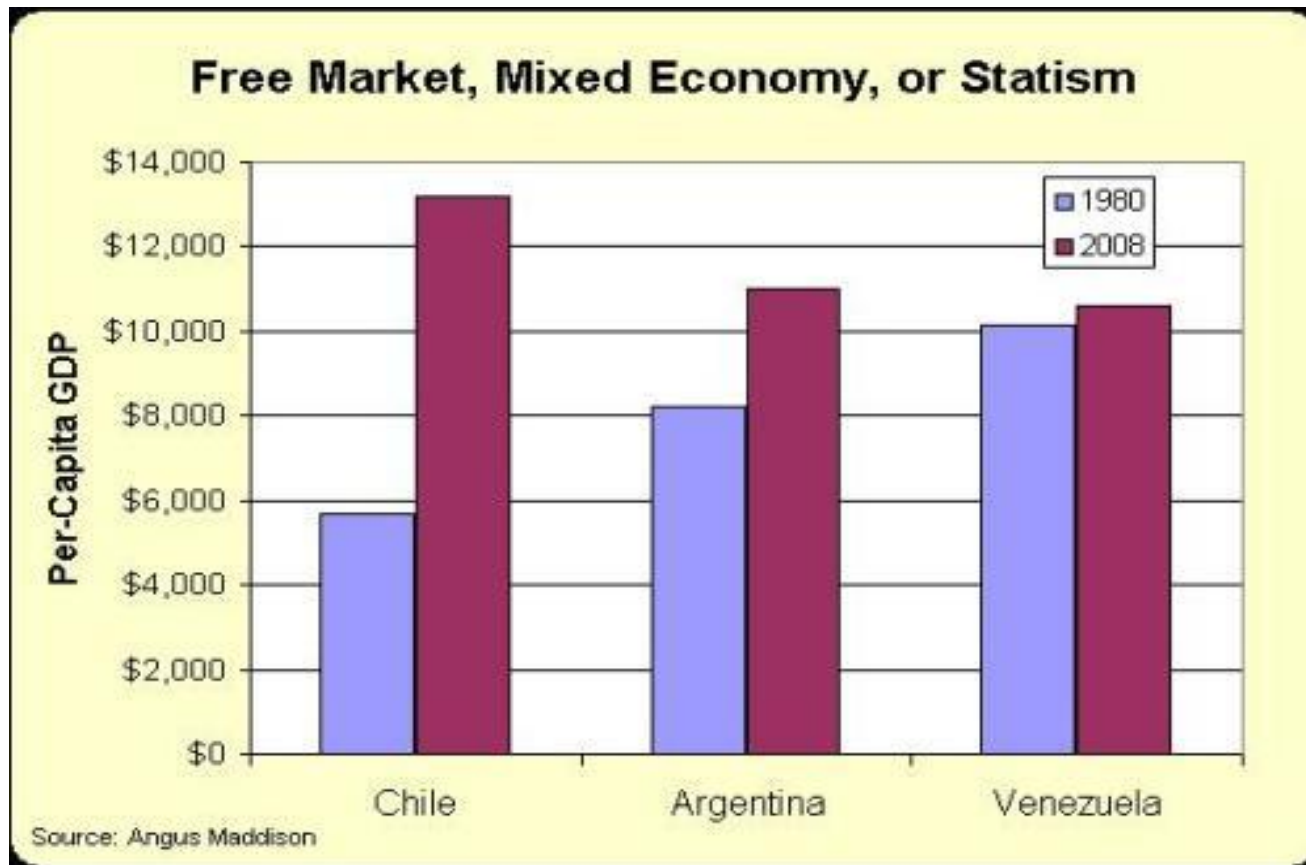


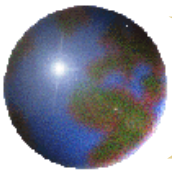
Example #6



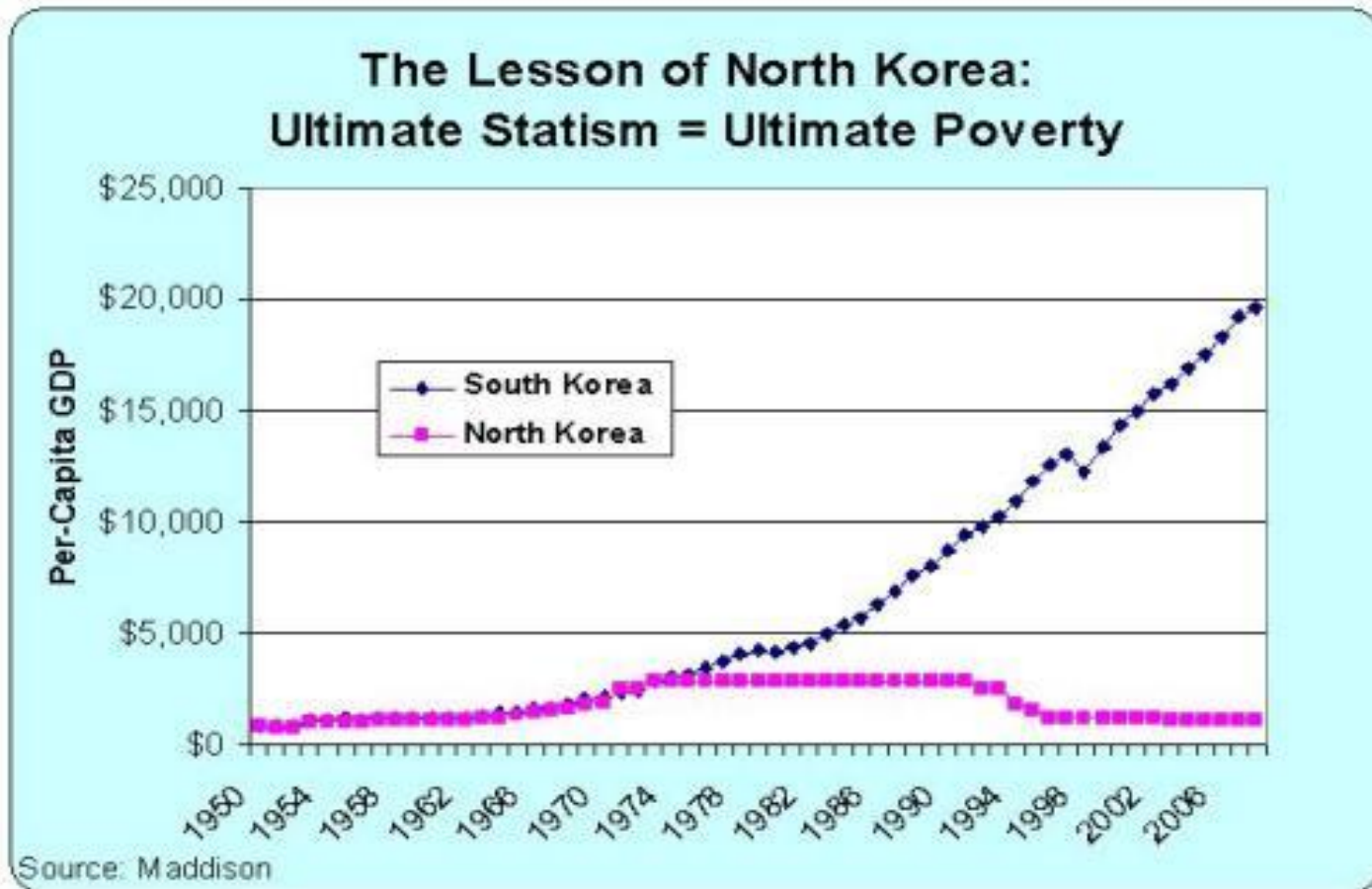


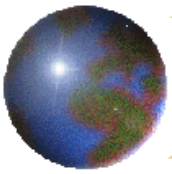
Example #7



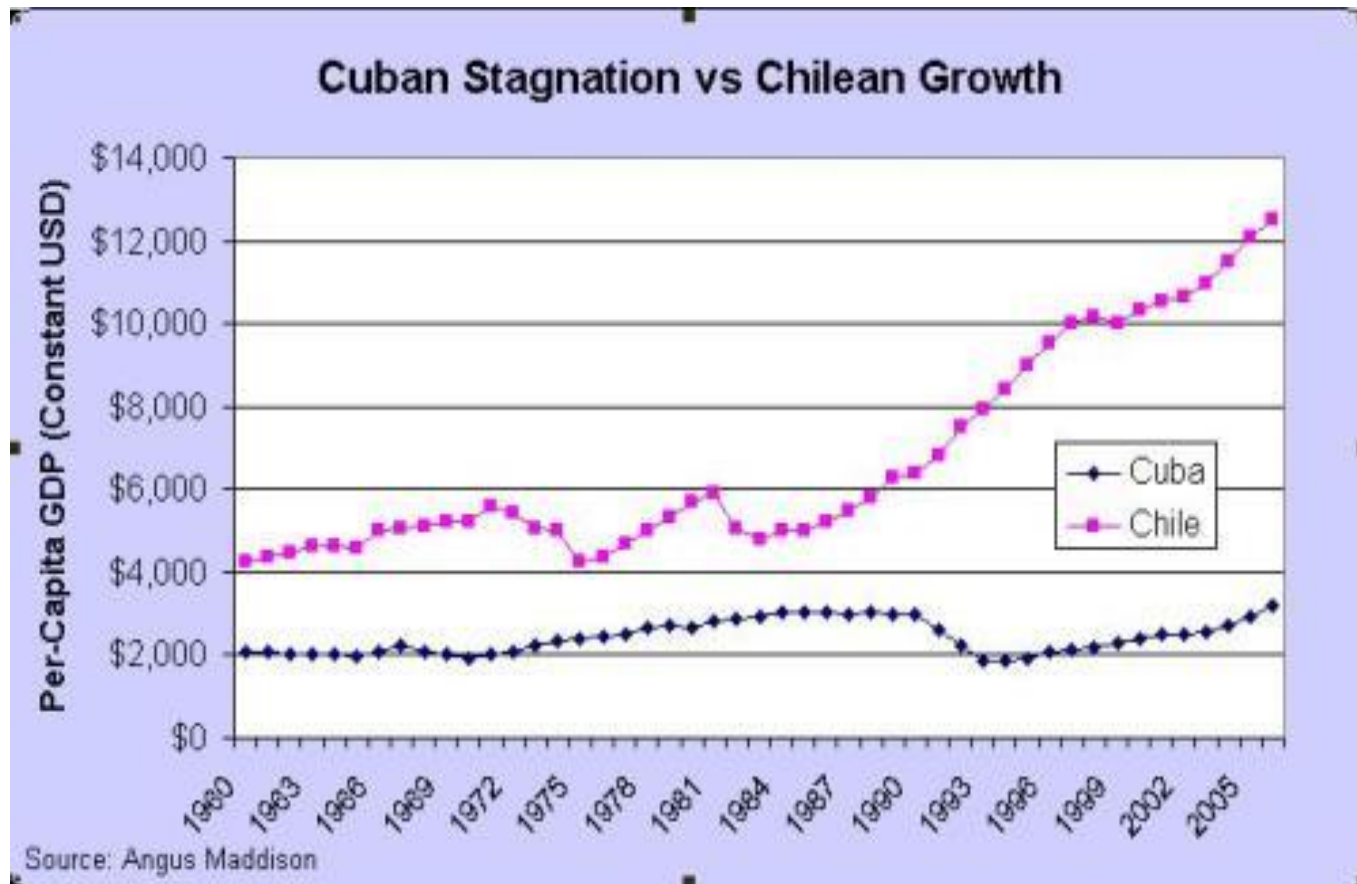


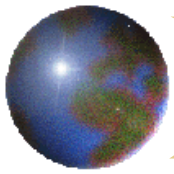
Example #8





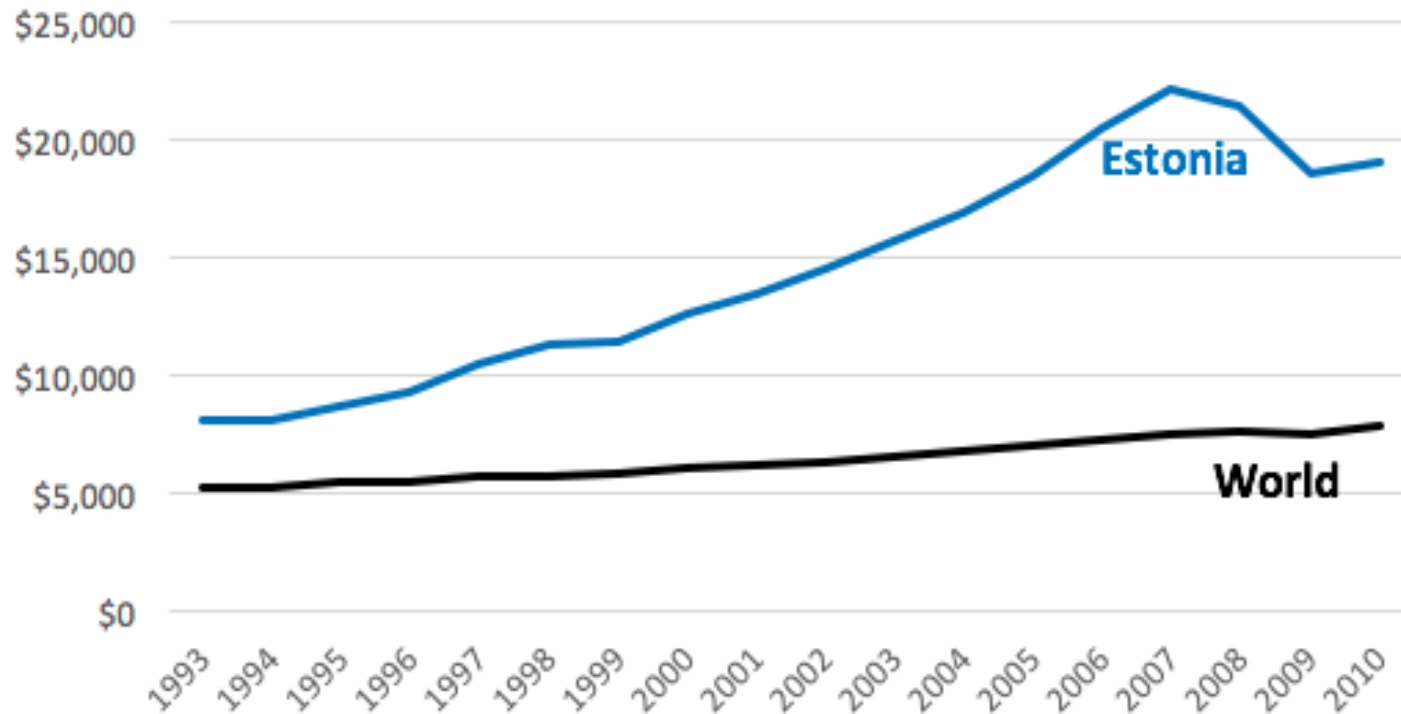
Example #9



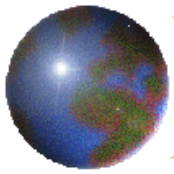


Example #10

Estonia GDP Per Capita

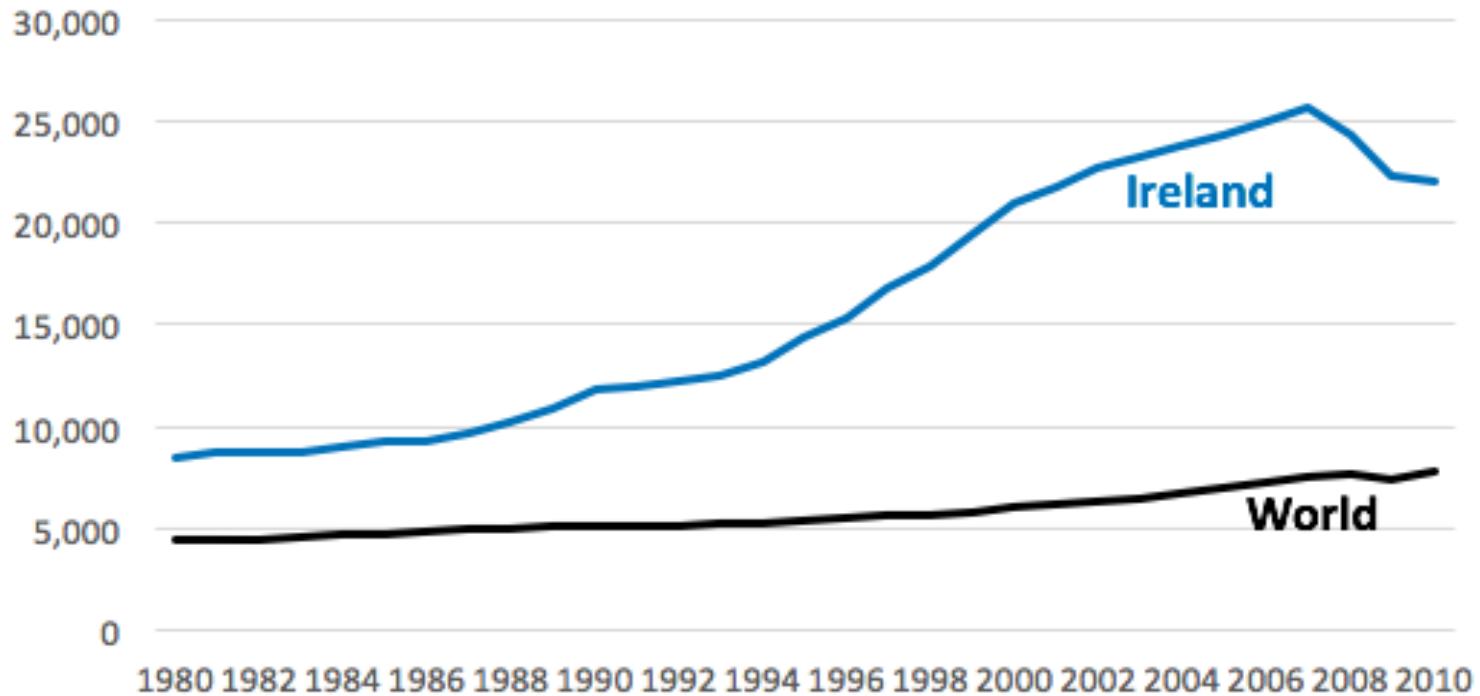


Source: Maddison Project: <http://www.ggdc.net/maddison/maddison-project/home.htm>

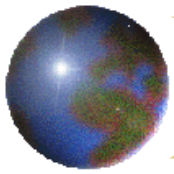


Example #11

Ireland GDP Per Capita

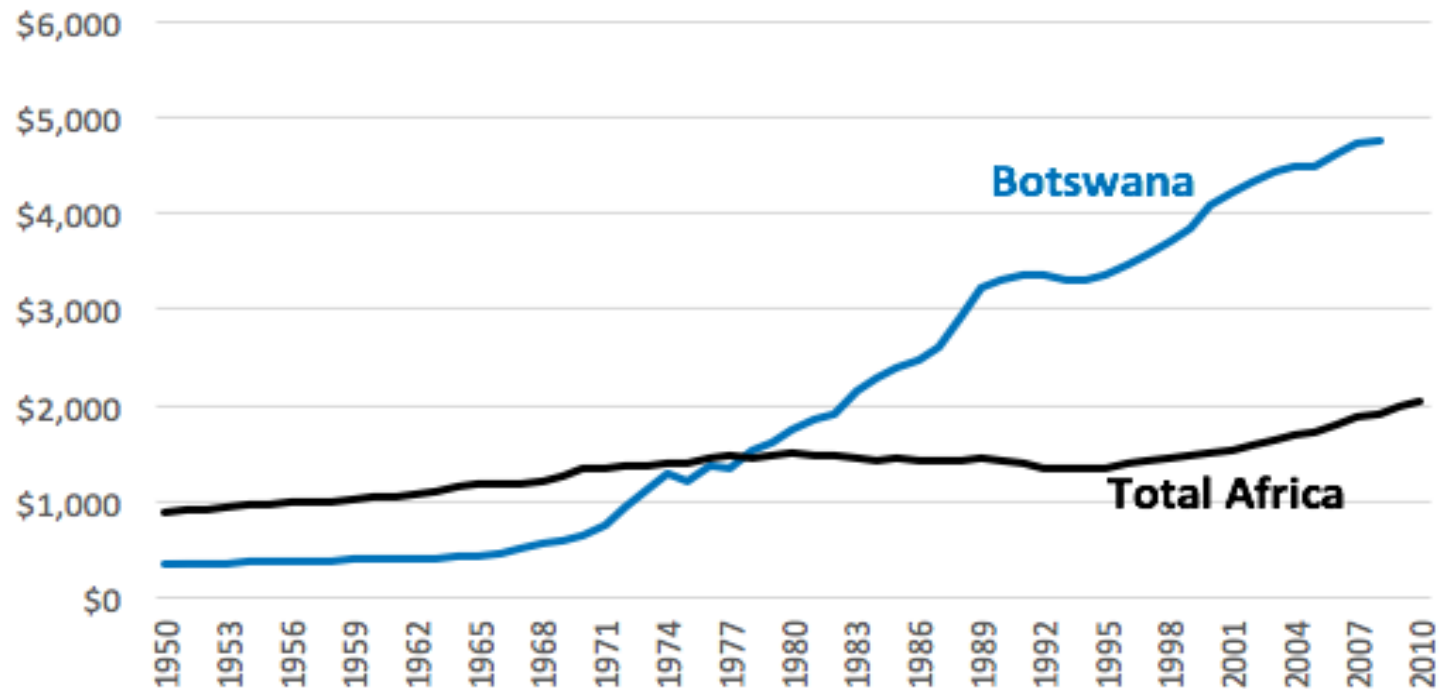


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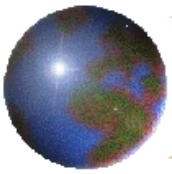


Example #12

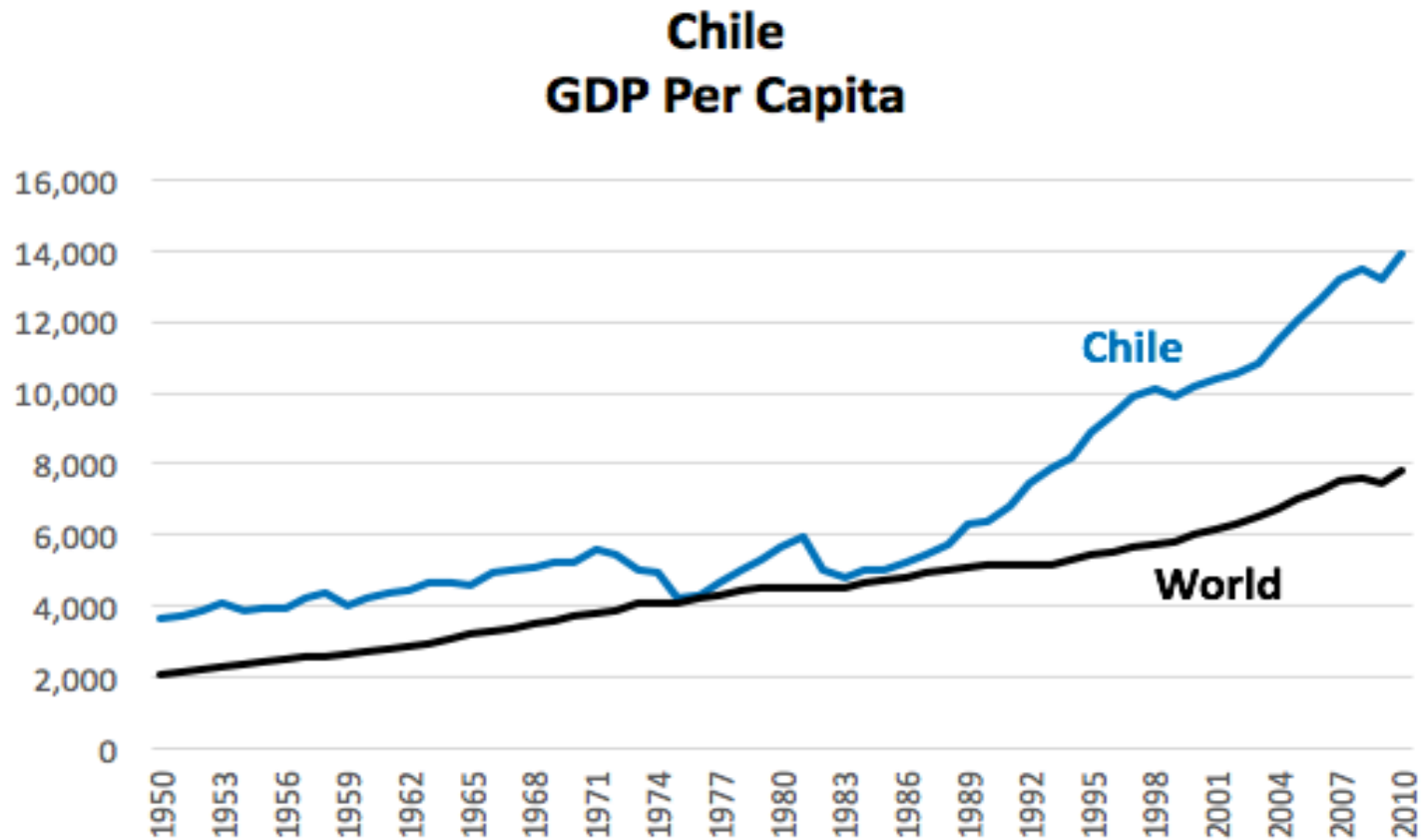
Botswana GDP Per Capita



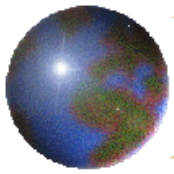
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Example #13

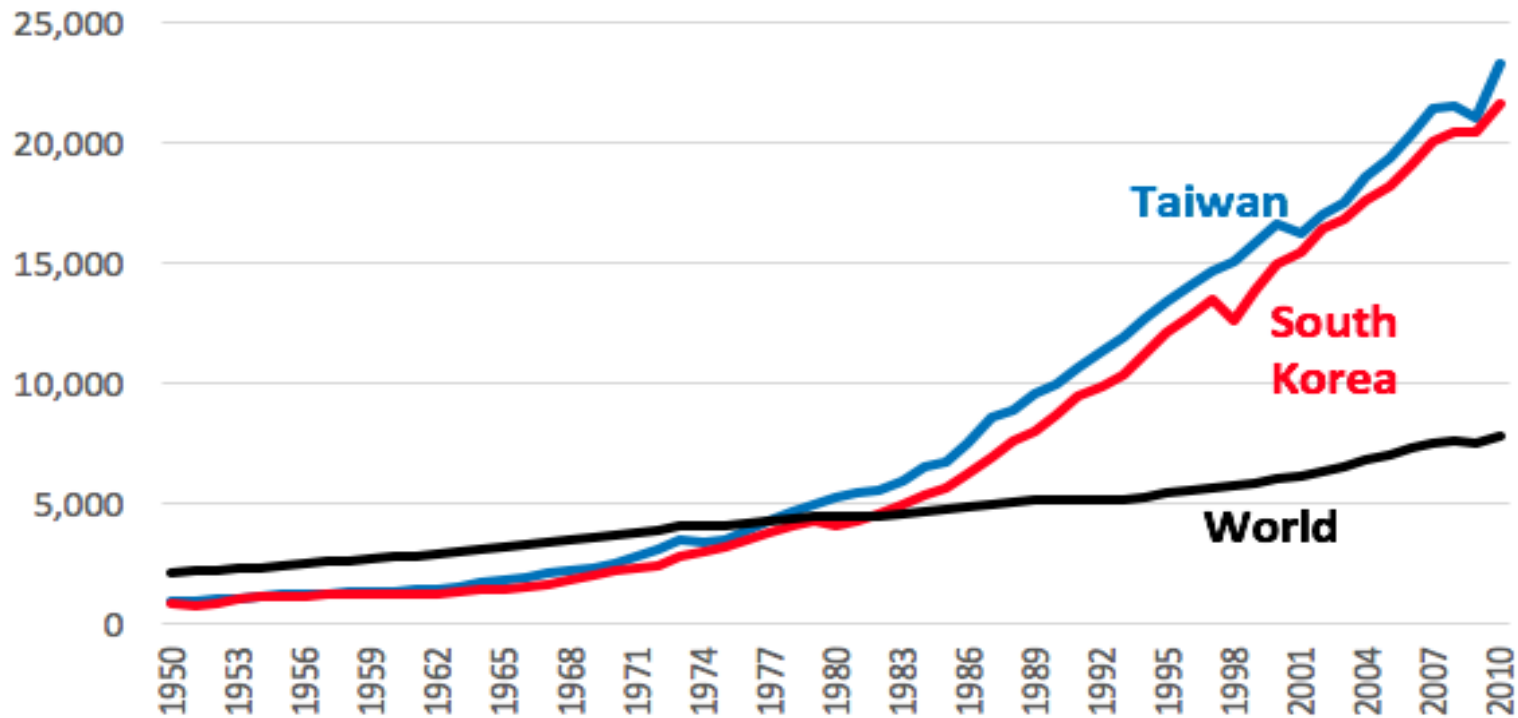


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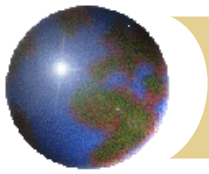


Example #14

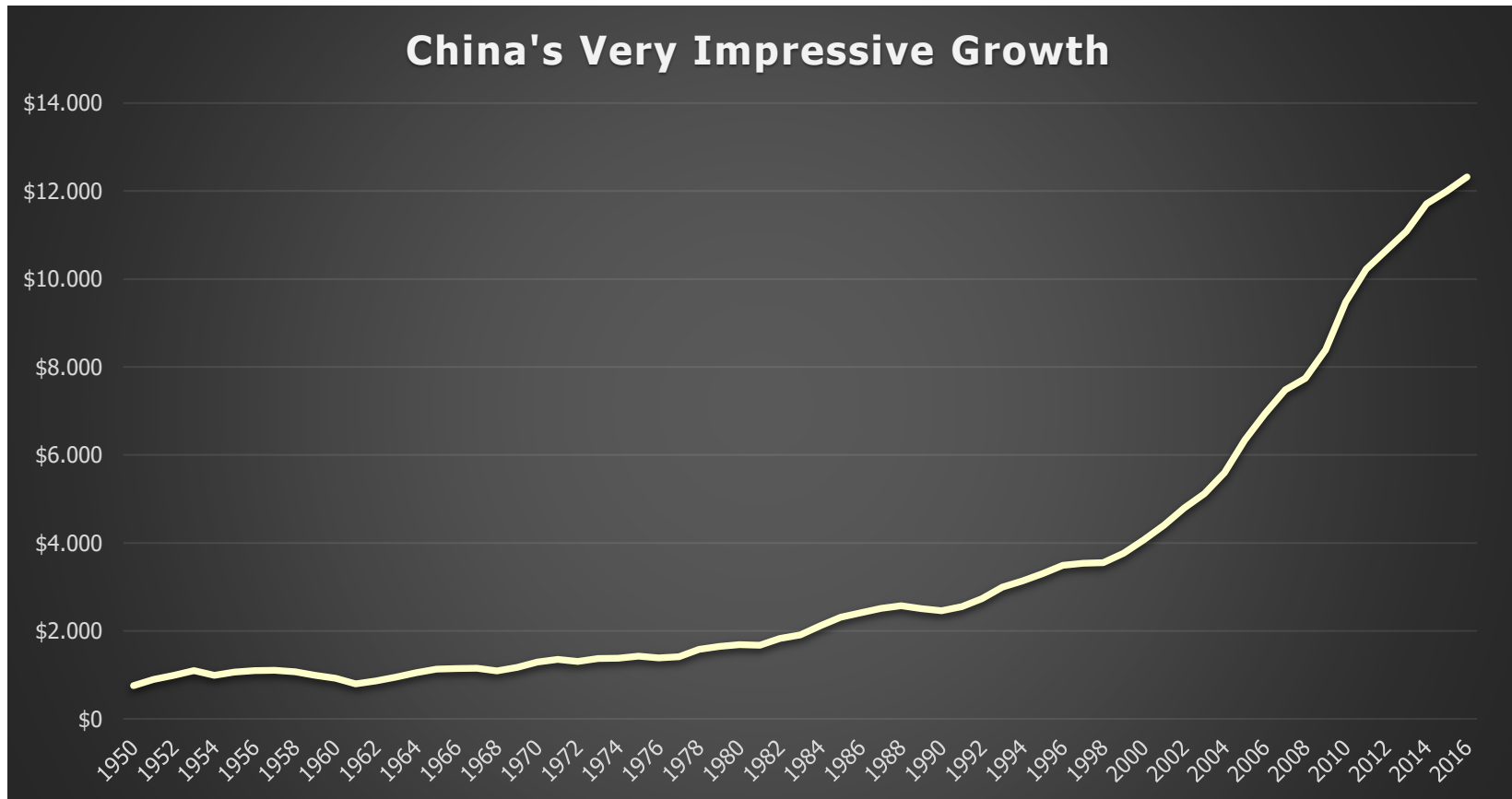
Taiwan and South Korea GDP Per Capita

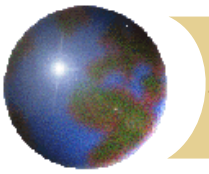


Source: Maddison Project: <http://www.ggdc.net/maddison/maddison-project/home.htm>

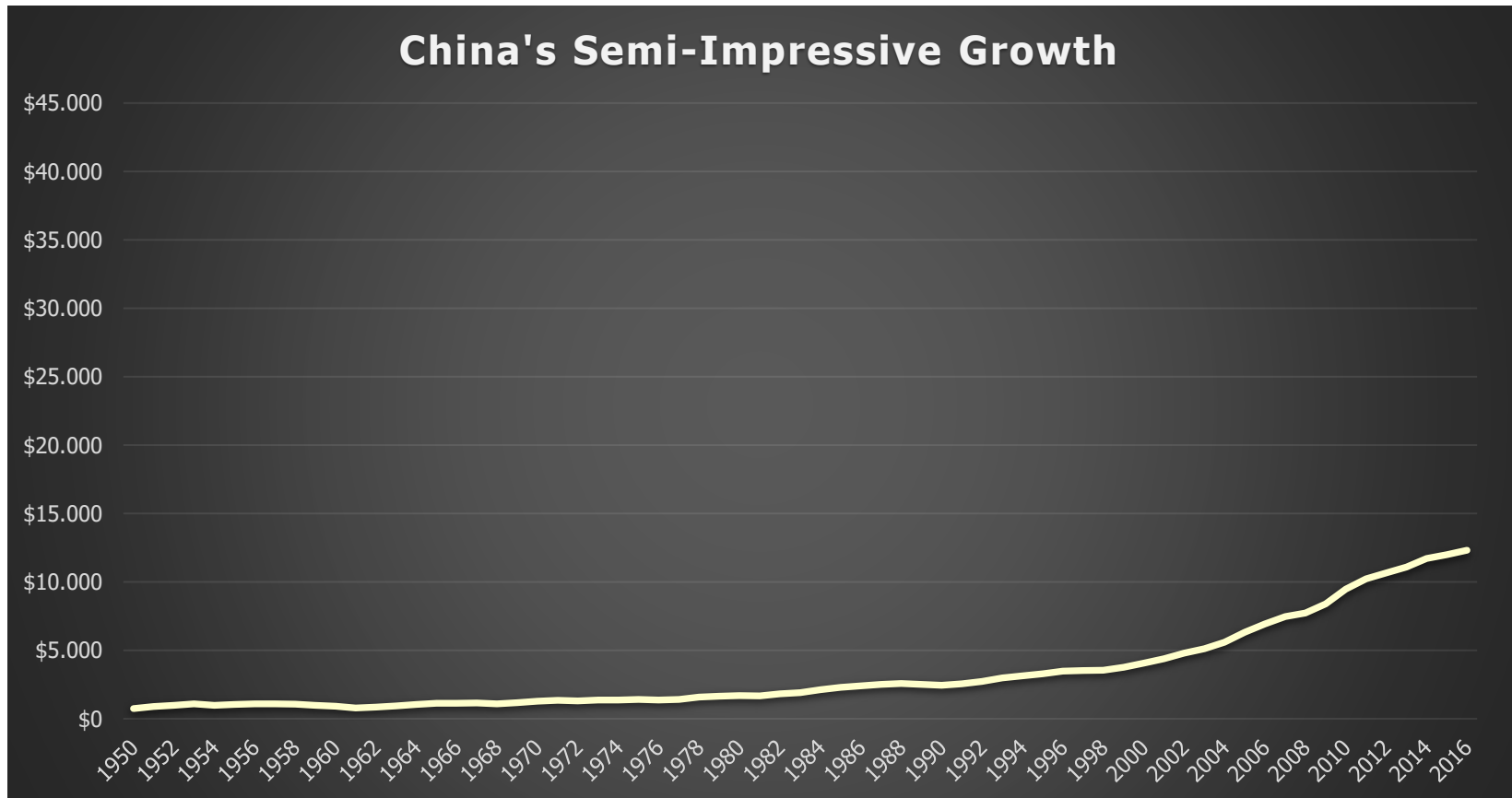


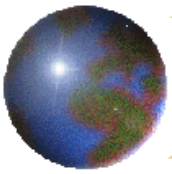
Example #15a



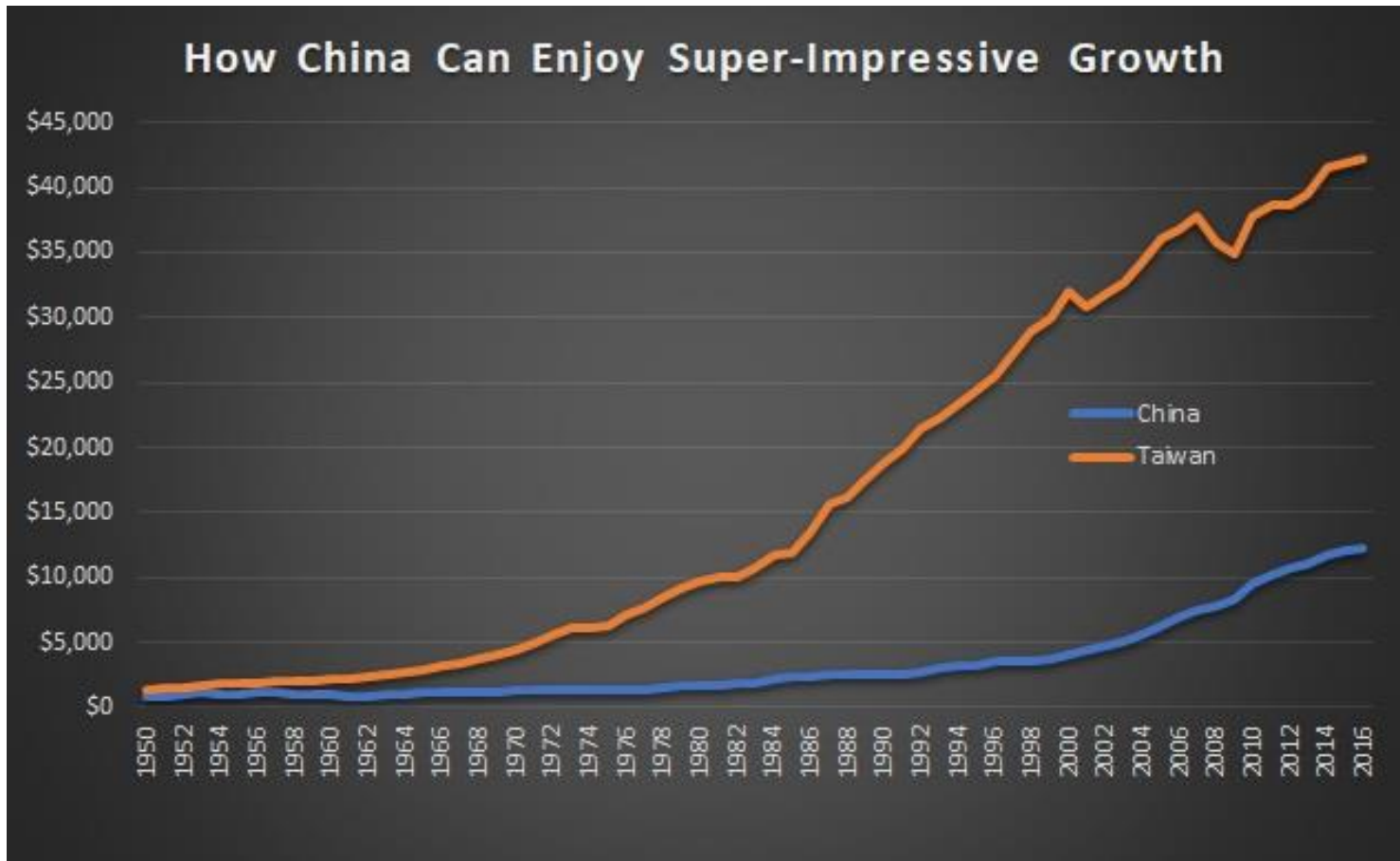


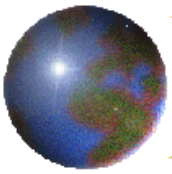
Example #15b



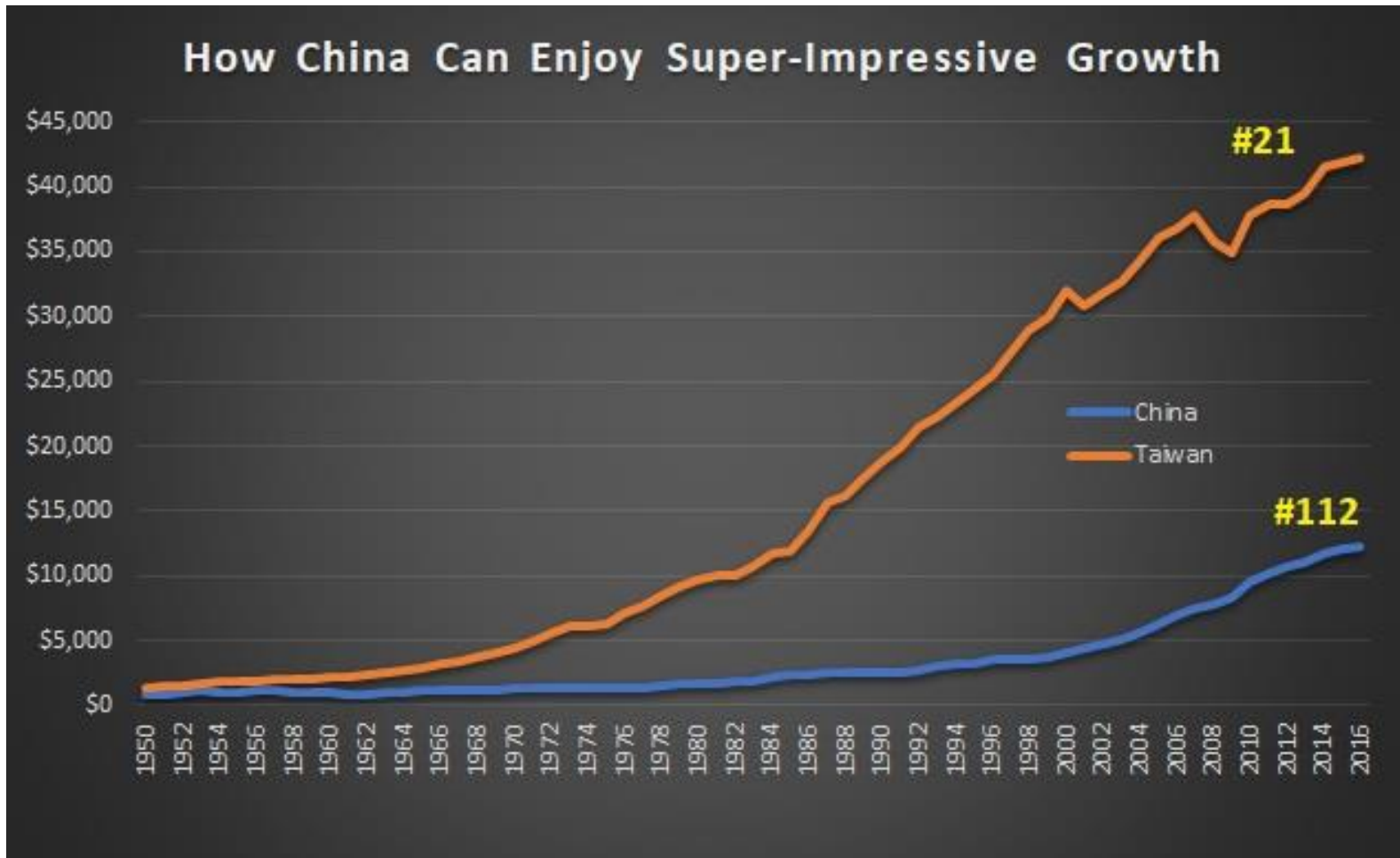


Example #15c





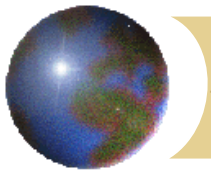
Example #15d





Learning from World History

- ✚ Rich nations in Europe and North America have income taxes.
- ✚ But they became rich when government was small and income taxes didn't exist.
- ✚ Once they adopted income tax, government got bigger and economy grew at slower pace.



Conclusion

✚ For more info

✚ www.freedomandprosperity.org

✚ www.danieljmitchell.wordpress.com

✚ www.youtube.com/afq2007

✚ @danieljmitchell

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