Public Finance Policies and Externalities: A Survey of Tax Policy in the Global Economy

Alexander Demitraszek

Faculty Sponsor: Dr. Matt Dobra
Reeves School of Business

Abstract

Globalization has increased the ease and pace with which capital can move. As a result, capital is much more sensitive to the seen and unseen effects of certain institutions and policies. Excessive taxation policies, combined with this global environment, have increased the likelihood of capital flight and tax competition. Taxation is popularly believed to serve as government's main source of revenue. It is also fallaciously believed that, through the institution of taxation, society can combat income inequality. Contrary to these assumptions, excessive taxation and income redistribution policies have resulted in many negative and inefficient economic and societal outcomes. Like most government institutions and policies, taxation is likely to result in negative externalities as the inefficiencies related to rent-seeking become apparent. Due to the deadweight losses associated with taxation and the rising scope of government, fiscal churning, tax competition, and migration in reaction to tax policies have become increasingly evident, threatening the well-being and efficiency of society.

Introduction

Increasing attention in the popular, political, and academic spheres focuses on the role and extent that the institution of taxation plays in today's global economy. Classical economic principles and empirical evidence assert that high tax rates hurt development, growth, innovation, and incentives. Popular anecdotes suggest that extreme taxation cases can alienate the upper classes and create a class diaspora (Rand, 1999).[5] Mainstream thought advocates that taxation serve a redistributive function and that the more affluent sphere of society should serve its "moral" obligation to the lower classes and pay more. Without getting bogged down by empiricism, this paper offers a brief economic overview of the institution of taxation and questio[illegible]r this redistribution is actually efficiently helping

[5] "Galt's Gulch" (Rand, 1999)

those it is designed to help. Specifically, the emergence of externalities of varying degrees in response to tax policies may create what Leroy-Beaulieu would call exorbitant tax rates.[6]

High tax rates have long been feared to cause capital flight, but there has emerged an obsession with income inequality in mainstream dialogue that has resulted in the call for highly progressive tax rates to redistribute and equalize income, thus helping the poor (Piketty, 2014). However, the rise of the modern social welfare state in various countries, funded in part by high tax rates, has led to the process of fiscal churning. This paper asks the following question: what would actually happen if high tax rates, especially on capital gains, were implemented? The hypothesis is that—given rent-seeking, the emergence of externalities, and deadweight loss associated with taxation—there is a counter-intuitive effect. Good intentions often have negative consequences: raising tax rates on the rich based on some fallacious moral principle actually hurts the poor and society as a whole. This paper is organized as follows: Section I discusses the concepts of fiscal churning and rent-seeking, endemic in tax policy. Rent-seeking occurs when political actors act in a manner that creates economic gains for a concentrated group while harming the rest of society. The negatives that are created are called externalities—unintended or unseen consequences. Many of these policies benefit some specific political group, or they simply benefit the people who were taxed in the first place. Section II deals with the nature of capital flight and tax competition. Section III focuses on the implications of highly progressive tax rates for the economy and the advantages of low capital gains tax. Finally, section IV deals with the ineffectiveness of controlling capital and forcing equalization.

I. Rent-seeking and Fiscal Churning

In the last 50 years, public spending and the fiscal side of government have experienced great growth (Higgs, 2012).. This growth has had little to no effect on the welfare of citizens. Fiscal churning conceptually deals with how efficient or inefficient a given political institution is. For a political system's efficiency to be assessed, Pareto improvement must be considered. This principle states that efficient policy must harm no one and must create a benefit for at least one part of society. Contrarily, if a system has produced no measurable benefits to society regardless of how low costs are, then the system is considered inefficient. For example Tanzi and Schuknecht (2000) observe that the large-scale growth in government spending accompanied by increases in taxation since the middle of the 20th century has had no quantifiable benefit to citizens: measures of welfare have stayed relatively stagnant, or in some cases decreased. The explanation for these outcomes is found in fiscal churning. The argument is a relatively simple jurisdictional issue: as taxes are levied on citizens to support new programs (social welfare, cash transfers, and redistributive functions), the people who benefit f are the same people who were taxed (Palda, 1997). The aforementioned increases in public spending have gone towards paying for various social services. These publicly provided social services have crowded out the

[6] French Economist Leroy-Beaulieu in 1888 surmised that, once the ratio of tax rates to national income exceeded 12 percent, there would be severe negative implications for economic development and freedom of citizens. (Tanzi & Schuknecht, 2000, p.51).

institutions that make up the market (Tanzi, 2005, pp. 617-638). The social services are services that could have easily been provided through the private market (Higgs, 1994). Essentially, these people are no better off and most likely are worse off given the deadweight loss associated with taxation. A more normative way to frame this explanation is that, were it not for the rise in the scope of government and government spending, citizens would be better off with either tax cuts or lower spending because they would have the freedom to decide how to spend their money on their own private social services. Palda defines a churned transfer as one that, if not enacted, would have left a person just as well off, either without the tax or with a tax cut of the same magnitude. This is especially seen within the middle class: the middle class is taxed and then later on given back that tax via Social Security or other welfare services. In other words "leviathan" taxes with one hand and then passes out transfers with the other hand, all to the same people. This state of affairs is inefficient, given that the money associated with the tax must be first be subjected to the multiple levels of bureaucracy before being transferred back to the taxpayer. The transaction costs and opportunity costs all represent the deadweight loss (Browning, 1976, pp. 283-298). Naturally, the tax collector will have to incur some deadweight loss, but it is when churning occurs that real inefficiency becomes prevalent as resources are being used needlessly, for no one's benefit (Palda, 1997).

The empirical evidence for churning shows that, in many somewhat socialized welfare states, a large amount of churning is going on. For example, in Canada, which lies in the median of the countries of the Organization for Economic Cooperation and Development (OECD), between 15.2 and 49.25% of all government spending is churned (Tanzi & Schuknecht, 2000). The general definition measures needless deadweight loss and churning as the difference between well-being before and after the policy is implemented and maximized (Palda, 1997).[7]

Overall government spending could be reduced by the degree of churning without any noticeable effect on the economy, regardless of whether special interests and corruption are involved. In fact, as special interests and corruption increase, the proportion of churned funds increases as well. These policies are designed to help the middle class, yet the middle deciles are the ones most harmed (Palda, 1997). Fiscal churning is also the result of the rational ignorance and voting behavior that is prevalent in democracy (Caplan, 2006). Ignorant voters take no notice that the government runs the capital taken by taxation through the bureaucratic systems and then gives it back to them in other forms. More educated voters often know of this policy inefficiency, but are complicit in allowing themselves to be subjected to the wastage. The problem with democracy is that the public can believe many fallacies regarding government and economic phenomena. Yet evidence has shown that government involvement at best leaves the public at the same level as they were before the government got involved. In most cases it leaves them worse off by imposing unnecessary costs and barriers (Caplan, 2006). Discounting the associated transaction costs of tax institutions, high tax rates also present a threat to the

[7] $U(x_{after}, T_{after}, F_{after}) - U(x_{before}, T_{before}, F_{before})$ Where T represents tax levels and F represents transfer levels of government reform, and X is a vector representing private consumer spending. (Palda, 1997).

competitiveness of capital in the global markets, as tax implications must be considered when engaging in trade (Tanzi & Schuknecht, 2000). Besides raising revenue for government programs, the other major tenet of taxation is popularly thought to be the redistribution and equalization of income.

Table 1. Level of Fiscal Churning* in Selected Industrial Countries (%)

Country (Year)	Churning as a Percentage of Income Taxes & Transfers	Government Expenditure as a Percentage of GDP	Public Expenditures without Churning
United States (1995)	9	32.9	23.9
Japan (1994)	11.6	34.4	22.8
Germany (1994)	15.7	48.9	33.2
Italy (1993)	22.7	57.4	34.7
Canada (1994)	11.7	47.5	35.8
Australia (1993-94)	6.5	36.8	30.3
Belgium	23.7	53.8	30.1
Denmark (1994)	28	59.3	31.3
Finland (1995)	15.5	57.9	42.4
Netherlands (1994)	21.1	52.8	31.7
Sweden (1994)	34.2	68.3	34.1
Avg.	**18.2**	**50.0**	**31.8**

* Fiscal churning measures the difference between government payments received and taxes paid by the same household.

Source: Arranged from Tanzi & Schuknecht (2000) (drawing on OECD *Economic Outlook* (June 1998), p. 163)

Wasting resources and incurring large costs for no social gain is a needless waste. The biggest source of this waste resides in the aspects of tax policy that are redistributive (Browning, 1976). One of the biggest ways that this fiscal churning could be mitigated is by enacting tax cuts that mirror the spending cuts made by families. Fiscal churning as a percentage of income before taxes and transfers was as low as 6.5% in Australia to as high as 28% in Denmark and 34.2% in Sweden according to the OECD's June 1998 Economic Outlook (Tanzi & Schuknecht, 2000).

Given the prevalence of fiscal churning, there is an enormous scope for streamlining and increasing efficiency; as a result, if this churning were eliminated, then public spending itself could be less than 30% of GDP (Tanzi & Schuknecht, 2000, p. 140). Another example of this is found in healthcare in welfare states. Taxpayers pay high marginal tax rates to fund healthcare policies, when they could have used the market to get the same healthcare for either lower cost, or higher quality. Countries that have large populist and progressive welfare policies tend to have the highest amount of churning.

The inefficiencies of tax policies and the churning that occur are enlarged by the existence of incentives that encourage political actors to engage in rent-seeking, while the deadweight loss of taxation proves the failure of taxation to address the moral case for taxation and income redistribution as a means for combating inequality. Government officials have incentives to extract rents from government consumption, and given fiscal illusion and the flypaper effect, this does not improve the welfare of those who are the intended beneficiaries (Hillman, 2009).

II. The Nature of Capital Flight and Tax Competition

In addition to the economic inefficiencies of taxation, and the churning and negative distortionary incentives it can create, there is considerable evidence regarding how tax policy encourages capital flight and migration, as well as competitive taxation between jurisdictions. On the international level, the best way to negate the distortionary incentives is by applying a residency-based tax system, in that international taxable income should be taxed in one jurisdiction based on residence. The developed world presents two opposed cases. First, tax rates in Europe have always tended to be higher since the post-war period because of the higher costs that the wars placed on Europe, and as a result Europeans are just more accepting, politically, of higher taxes. Secondly, there is the contentious nature of tax competition. In Europe, either the tax rates are high given that assessed bases are lower because of the increased avoidance and evasion of taxes, or both tax rates and bases are considered low because elasticity forces governments to maintain low competitive rates to prevent the fear of widespread migration. Residency-based taxation distorts economic activity, but it ensures that there is at least some source of taxable revenue for government to access. Because of residency-based taxation policies and geographic proximity, international capital flight and tax competition are much more of a problem in Europe. Given European political geography and the associated low costs of migrating and exporting capital, tax policy has become an area of increased focus in public policy. In a phenomenon called "voting with your feet," citizens will migrate and relocate based on public policies. Capital flight represents a partial solution to information asymmetry: people are voluntarily moving to be grouped into jurisdictions with preferential policies. Tax rates represent a price, and prices lead people to reveal their preferences within a supply and demand framework. Evidence shows that, given the low costs of exporting capital in Europe, even the slightest mention of increasing taxes results in a migratory response (Giovanni & Hines, 1990). Because of this, countries will compete against neighbors by offering incentives to attract capital migration, i.e., by competing on the basis of tax policy.

Empirically, this is seen in the fact that in 1977 the average corporate tax rate in the original twelve countries of the European Union (EC12) was 43%, σ of 8%; then in 1989, a convergence happened and the average rate fell to 40%, σ of 6.5% (Giovanni & Hines, 1990). This threat of growing mobility in capital has demanded a new set of policy responses from countries to avoid capital flight and brain drain.

Even though the U.S. is just starting to have to deal with the possibility of extensive international capital flight and migration, there have long been great policy questions as to whether citizens will avoid higher taxes, and to what degree tax flight will impact the economy. In certain states, legislatures have raised capital gains tax rates, but in general states have avoided this, in fear of tax flight. New Jersey has been the major case study in millionaire taxation in the United States. In 2010, Governor Chris Christie vetoed a renewal of the 2004 state millionaire tax, citing that the upper income tax had caused over $70 billion of capital flight (Lai, Cohen, & Steindel, 2011). The 2004 tax reform in New Jersey introduced a raise of 2.4% on the marginal tax rate on income of $500,000 or more. As a result of New Jersey's geographical position, lawmakers have introduced policies for prevention of capital migration. New York, New Jersey, Connecticut, and Pennsylvania have

Table 2. Number of Millionaires and Net Out-Migration, New Jersey, 2000-2007

	Millionaire Tax	Net Out-Migration		Top Marginal
Tax Year	Filers	Households	Per 1000 Stock	Tax Rate
2000	41358	239	5.8	6.37
2001	35621	372	10.4	6.37
2002	32726	342	10.5	6.37
2003	33696	383	11.4	6.37
2004	39235	577	14.7	8.97
2005	42504	614	14.4	8.97
2006	46651	686	14.7	8.97
2007	27867	390	14	8.97
2000-2006 avg.	**38827**	**459**	**11.7**	
Standard Deviation	5085	166		

Notes: Income is in constant 2007 dollars. Tax filers are included as of the beginning of the tax year, excluding part-year returns with residency periods less than 28 days and any tax returns filed after May 6, 2008; this cutoff implies a substantial shortfall for TY2007 relative to the total tax return count for the year. NJDT waits 10.5 months after the original fi ling deadline (April 15, 2008 for TY2007) to summarize data for its Statistics of Income report. However, TY2007 net out-migration per 1,000 stock is accurate to the extent that the filing date is not correlated with migration propensity.

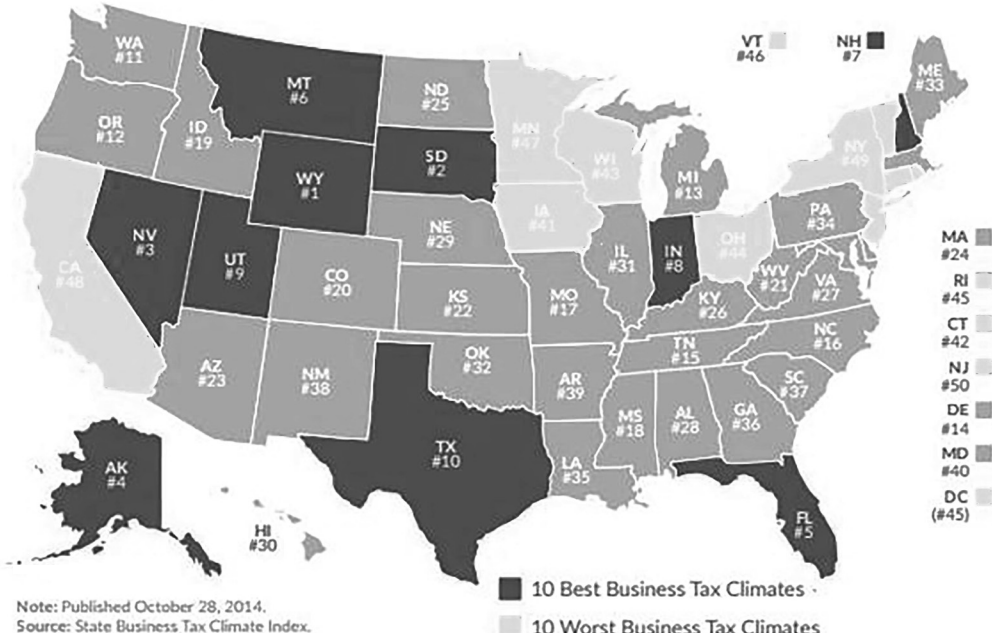
Source: Varner & Young (2011) (drawing on NJDT micro-data).

all imposed policies to prevent the emergence of arbitrage and capital migration, through transportation costs, employment laws, and residence and other jurisdictional requirement adopted in reciprocal tax treaties. Incentives drive people to act, and if upper income individuals are given the incentive to leave based on tax policy, then they will. Given the nature of loyalty, transaction costs, and preferences, the evidence is not simple and clear-c but still shows that high tax rates and highly progressive tax rates cause capital flight betwe states. Following the rise in top marginal tax rates in New Jersey, Varner and Young (2011 found a rise in net out-migration.

In the United States, capital flight is seen in the relative tax shelter that Delaware provides, as well as in the migration of Northeastern wealth to the South. An experimenta model by Lai, Cohen, and Steindel (2011) shows that a 1% rise in average marginal tax rat in New Jersey relative to other states would cause about 4,000 taxpayers and $520 million adjusted gross income (AGI) to leave the state. Applying this model to New Jersey's 2004 capital gains tax hike, they estimate that nearly 20,000 taxpayers, with combined AGI of $ billion, and over $125 million of tax revenue were lost (Lai, Cohen, & Steindel, 2011).

New Jersey's policy and similar policies in Maryland and most states in the Northeast have caused a great migration in the United States as upper income individuals and corporations have migrated to select tax haven "magnet" states that have low tax burdens.

Table 3. 2015 State Business Tax Climate Index



Note: Published October 28, 2014.
Source: State Business Tax Climate Index.

The model of Lai, Cohen, and Steindel (2011) suggests that the increased annual outflow of about 4,200 taxpayers and $530 million AGI converts to $29 million in lost tax revenue, which is a cost of roughly $125,000 per lost taxpayer (Lai, Cohen, & Steindel 2011). Had New Jersey kept its tax rates at previous levels, then it would have preserved its tax base and would have generated more in additional state income. The phenomena of tax migration and competition form a vicious cycle: as outflows of capital increase in response to high tax rates, all forms of taxation will see rate increases as well in order to compensate for the lost base, and this will impair economic development, state competitiveness, and fiscal performance.

III. The Effects of High Taxation to Combat Inequality and the Case for Low Tax Rates

The major contribution of Thomas Piketty has been his theory that, if the rate of return on capital (*r*) increases faster than the economic growth rate (*g*), then the wealthy will continue to get wealthier, increasing inequality (Piketty & Saez, 2003; Piketty, 2014). To help the poor, combat this inequality, and grow the welfare state, Piketty suggests that upper income tax rates should be 80% for those with income above $5 million, and should be between 50-60% for those with income about $200,000 (Piketty & Saez, 2003; Piketty, 2014). The Tax Foundation's Taxes and Growth (TAG) model has recently been applied to Piketty's plan, and the findings show that Piketty's plan would be enormously negative.

As analyzed by Schuyler (2014), the TAG model shows that, if income were taxed at Piketty's suggested rates of 80% and 55%, then after a period of economic adjustment GDP, wage rates, capital stock, and jobs would fall by 3.5%, 1.6%, 7.4%, and 2.1 million respectively. See Table 4.

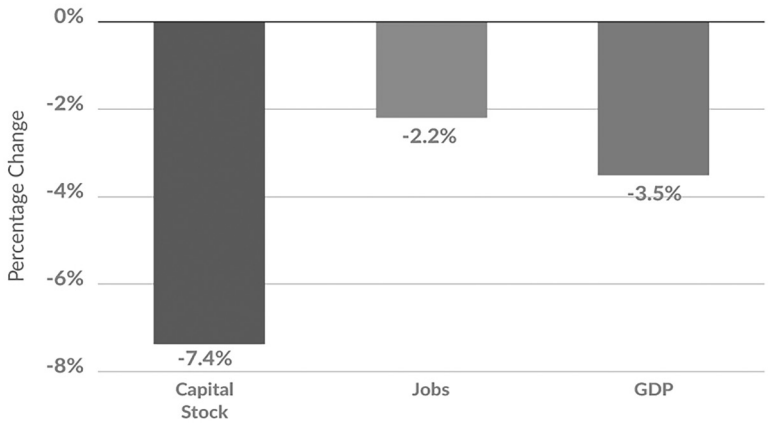
As shown in Table 5, if the hike up to 80% and 55% were mirrored in capital gain and dividend tax rates, then the model suggests an economic catastrophe, with GDP falling by 18.1% ($3 trillion),[8] capital stock by 42.3%, and wage rates by 14.6%, as well as the loss of 4.9 million jobs (Schuyler, 2014). Moreover, despite high tax rates, as the Laffer curve predicts, government revenue would fall in proportion. After-tax income of the poor and middle class, the supposed beneficiaries of this theory, would fall by 3% if capital gains rates remain independent of income rates, and 17% if capital gains rates mirror the increase in income rates (Schuyler, 2014). The Piketty policy also disincentives the poor and middle class who, as the recipients of transfer payments, would have less incentive to earn more income because their transfer payments would decline as they move up the tax brackets (Burkhauser & Larrimore, 2012). The rich would lose incentive as high marginal tax rates take a large fraction of their additional income, and the middle to upper middle class would have more of an incentive to spend on tax-deductible items and on tax shelters in order to avoid taxation. Higher tax rates do not do what they are intended to do; in fact, they distort

[8] Just for a point of reference, GDP fell about 27% during the Great Depression; during the 1981-1982 recession GDP declined 2.7%; and during the Great Recession of 2007-2009 GDP fell 4.1% (Labonte, 2010).

Table 4. Top Individual Income Tax Brackets of 55% and 80%; No Change in Tax Treatment of Capital Gains and Dividends	
Economic and Budget Changes Compared to Current Tax System (Billions of 2013 dollars except as noted)	
GDP	-3.50%
GDP ($ billions)	-$571.4
Private business GDP	-3.79%
Private business stocks	-7.36%
Wage rate	-1.63%
Private business hours of work	-2.20%
Full-time equivalent jobs (in thousands)	-2,120
Static federal revenue estimate, GDP assumed constant ($ billions)	$292.9
Dynamic federal revenue estimate after GDP gain or loss ($ billions)	$141.8
Weighted Average service price	% Change
Corporate	-0.37%
Non-corporate	13.84%
All business	3.86%
Source: Tax Foundation calculations	

Chart 1. Top Individual Income Tax Brackets of 55% and 80%

No Change in Tax Treatment of Capital Gains and Dividends



Source: Tax Foundation calculations

incentives. There has been no significant improvement in the equalization of income following the implementation of pervasive redistributive policies.

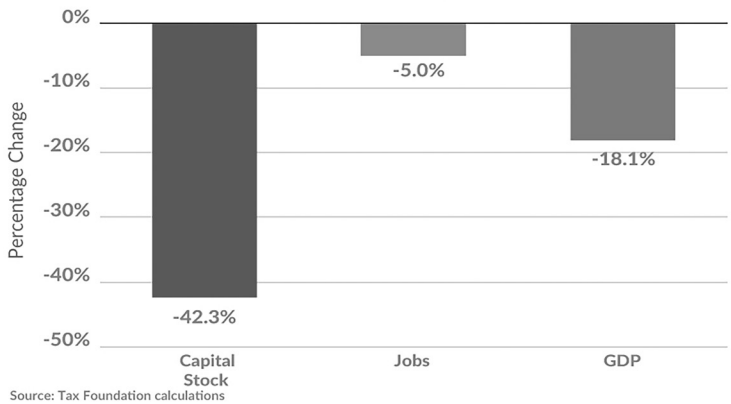
The evidence shows that fiscal and budgetary realities on all levels will be greatly harmed. Quite apart from the TAG model, France tried a tax scheme similar to that of the millionaires' tax. While Piketty is advocating for increased attention on inequality, his

Table 5. 'Top Individual Income Tax Brackets of 55% and 80%; Capital Gains and Dividends Taxed as Ordinary Income	
Economic and Budget Changes Compared to Current Tax System (Billions of 2013 dollars except as noted)	
GDP	-18.11%
GDP ($ billions)	-$2,952.6
Private business GDP	-18.88%
Private business stocks	-42.34%
Wage rate	-14.58%
Private business hours of work	-5.04%
Full-time equivalent jobs (in thousands)	-4,851
Static federal revenue estimate, GDP assumed constant ($ billions)	$578.3
Dynamic federal revenue estimate after GDP gain or loss ($ billions)	-$243.8

Weighted Average service price	% Change
Corporate	53.05%
Non-corporate	11.46%
All business	40.68%
Source: Tax Foundation calculations	

Chart 2. Top Individual Income Tax Brackets of 55% and 80%

Capital Gains and Dividends Taxed as Orginary Income



Source: Tax Foundation calculations

suggestions, theories, and fundamental misrepresentation of institutional context will not cure inequality. Instead it will do much greater harm than is currently suffered and will create a "bunching and lock-in effect,"[9] as well as harm global competiveness and discourage investment and development.

[9] Capital gains are taxed upon realization. Many capital gains are realized only in one single "transitory spike," for example the selling of one capital asset, a phenomenon called "bunching." The income spike unfairly pushes the seller into a higher tax bracket. "Lock-In" occurs when people hold off selling investments in order to avoid the tax hit. This creates the incentive for people to hold on to

Table 6: Equalization of Income Distribution Through Taxation & Transfers Mid-1980s (Percent of GDP)

	Income Share of bottom 40% of households		
	Gross Income	Domestic Income	Improvement in Income Distribution due to Taxation and Transfers
Australia	15.1	17.7	**2.6**
Canada	16.1	17.8	**1.7**
France*	14.8	16.8	**2**
Germany*	18.7	21.7	**3**
Netherlands	19.7	22.6	**2.9**
Sweden	19.9	22.4	**2.5**
Switzerland	17.4	18.9	**1.5**
United Kingdom	15.8	17.5	**1.7**
United States	13.9	16.3	**2.4**
Average	**16.8**	**19.1**	**2.3**

*Only Households with positive incomes have been selected. Some inequality measures are not defined for income values of zero. The German data set excludes some 8% of households with foreign national heads of households. The United States' data set has a top coding of US $50,000. The noted problems with a comparison of data sets on the inter-country level alter true inequality.

Source: Tanzi & Schuknecht (2000).

IV. Conclusion: The Lost Battle of Controlling Capital

In the classical economic tradition, political borders serve no economic purpose, so the notion that public finance policies can reduce inequality is purely an issue of the accountancy of capital. However, when capital flowing across borders is distorting incentives and creating deadweight loss, then economic systems will have to adapt and channel resources accordingly in order to accommodate the flows of capital in response to policy. For example, given the increasing mobility of capital, tax havens simply cannot accommodate rapid inflows of capital that would occur as a result of increasingly progressive tax policies.

investments longer, forgoing diversification, because they are "locked in" to avoid capital gains tax on current investments. Lock-in reduces market efficiency. See Edwards, 2012.

Table 7. 2015 International Tax Competitiveness Index Rankings

Country	Overall Score	Overall Rank	Corporate Tax Rank	Consumption Taxes Rank	Property Taxes Rank	Individual Taxes Rank	Int'l Tax Rules Rank
Estonia	100	1	1	9	1	2	17
New Zealand	91.8	2	21	6	3	1	16
Switzerland	84.9	3	5	1	32	4	9
Sweden	83.2	4	6	11	6	21	5
Netherlands	82	5	16	12	23	6	1
Luxembourg	79.1	6	29	5	17	13	4
Australia	78.3	7	25	8	4	16	18
Slovak Republic	76	8	17	32	2	7	8
Turkey	75.5	9	8	25	7	3	15
Ireland	71.6	10	2	24	16	22	23
United Kingdom	71.5	11	14	16	30	18	2
Norway	71	12	18	22	14	12	13
Korea	70.9	13	15	3	25	5	31
Czech Republic	69.9	14	7	31	9	11	11
Finland	69.8	15	4	14	18	27	20
Austria	69.5	16	19	23	8	30	6
Germany	69.2	17	23	13	13	31	7
Slovenia	69.1	18	3	27	15	15	21
Canada	68.7	19	22	7	21	19	25
Iceland	66.5	20	12	21	22	28	10
Denmark	65.8	21	13	20	10	29	22
Hungary	65.1	22	11	34	24	20	3
Belgium	62.5	23	28	28	20	10	12
Mexico	61.6	24	30	18	5	8	34
Japan	61.5	25	33	2	27	23	28
Israel	60.8	26	24	10	11	25	30
Greece	59.4	27	20	26	26	9	29
Chile	56.8	28	10	29	12	14	33
Spain	56	29	32	15	31	26	14
Poland	55.8	30	9	33	28	17	27
Portugal	53.1	31	26	30	19	32	26
United States	52.9	32	34	4	29	24	32
Italy	50.9	33	27	19	33	33	19
France	43.7	34	31	17	34	34	24

Source: Pomerleau (2015) (drawing on Tax Foundation International Tax Competitiveness Index).

Globalization has put enormous pressure on fiscal policy. Firstly, the rise of global connectedness is allowing economic success stories of one state to be copied and implemented in another. Secondly, increased mobility and the fear of capital flight encourage government reform. The global liberalization and growth of capital markets now serve as forces that punish poor economic policy. Tax competition will reduce governments' ability to maintain the idealized, romanticized Scandinavian welfare state, as they will no longer be able to finance heavy spending. Thirdly, heavy taxation has led to the creation of new forms of capital that are essentially untraceable and, as a result, relatively difficult (inefficient) to tax.[10] Finally, governments are finding it increasingly difficult to justify introducing capital restraints and regulations, given the rise of international organizations that govern and promote the openness of capital flow and free trade.

The general assumption is that through taxation, specifically progressive taxation, income distribution can be improved. Due to all the previously stated negatives of this type of taxation, progressive taxation has had relatively meager effects on improving the income of those it is intended to help. Advocating for fiscal policies like high progressivity of tax systems and redistribution is simply bad economics. Equality in its very nature is an organic and emergent phenomenon, and the attempt to implement forced equality through policy does not lead to true equality and can lead to disastrous consequences. Forcing equality is often far more harmful than the initial inequality. The empirical and theoretical evidence suggests that these types of policies only create deadweight loss, fiscal churning, and distortionary incentives associated with rent-seeking, thus harming the intended beneficiaries of the policy. Given the complexity of the world and global economy, there is no reason to suggest that people should be equal in the first place. If the moral case is to be made to help the poor and reduce inequality, then the best approach is through open borders, free trade, and the free flow of capital without constraint by government institutions and systems.

References

Boudreaux, D. (2008, January 28). Globalization and trade [interview by Russ Roberts]. *Library of Economics and Liberty*. Retrieved from http://www.econtalk.org/archives/2008/01/don_boudreaux_o.html

Browning, E.K. (1976). The marginal cost of public funds. *Journal of Political Economy 84*(2): 283–298.

Burkhauser, R.V., Larrimore, J., & Simon, K.I. (2012). A "second opinion" on the economic health of the American middle class. *National Tax Journal, 65*(1), 7-32.

Caplan, B. (2006). *The Myth of the Rational Voter*. Princeton: Princeton University Press.

Drenkard, S., & Henchman, J. (2014). 2015 State business tax climate index. *TaxFoundation.org*. Retrieved October 30, 2014, from http://taxfoundation.org/article/2015-state-business-tax-climate-index

Edwards, C. (2012). *Advantages of Low Capital Gains Tax Rates, Tax and Budget Bulletin No. 66*. Washington DC: CATO Institute. Available from

[10] E.g., the rise of Bitcoin

http://www.cato.org/publications/tax-budget-bulletin/advantages-low-capital-gains-tax-rates
Evans-Pritchard, A. (2013, January 13). French capital flight spikes as Hollande hits business. *The Telegraph*. Available from http://www.telegraph.co.uk/finance/9798891/French-capital-flight-spikes-as-Hollande-hits-business.html
Giovanni, A., & Hines, J.R. (1990). *Capital Flight and Tax Competition: Are There Viable Solutions to Both Problems?* NBER Working Paper Series, Working Paper No. 3333. Cambridge, MA: National Bureau of Economic Research.
Higgs, R. (1994, Dec. 5). Nineteen neglected consequences of income redistribution. *Independent Institute*. Retrieved from http://www.independent.org/publications/article.asp?id=1155
Higgs, R. (2012). *Crisis and Leviathan: Critical Episodes in the Growth of American Government*. Oakland: The Independent Institute. (Originally published 1987).
Hillman, A.L. *Public Finance and Public Policy: Responsibilities and Limitations of Government*, 2nd edition. New York: Cambridge University Press, 2009.
Labonte, M. (2010). *The 2007-2009 Recession: Similarities to and Differences from the Past.* CRS Report for Congress, Congressional Research Service.
Lai, A., Cohen, R., & Steindel, C. (2011). *The Effects of Marginal Tax Rates on Interstate Migration in the U.S*. Office of the Chief Economist, Trenton: New Jersey Department of the Treasury.
Palda, F. (1997). Fiscal churning and political efficiency. *Kyklos, 50*(2), 189-206.
Piketty, T. (2014). *Capital in the Twenty-First Century*, Goldhammer, A., trans. Cambridge, MA: The Belknap Press, 2014.
Piketty, T., & Saez, E. (2003). Income inequality in the United States. *The Quarterly Journal of Economics, 68*(1), 1-39.
Pomerleau, K., & Lundeen, A. (2015). *International Tax Competitiveness Index*. Tax Foundation. Retrieved from http://taxfoundation.org http://taxfoundation.orghttp://taxfoundation.org/search/node/International%20Tax%20Competitiveness%20Index.
Rand, A. *Atlas Shrugged*. New York: Penguin Group, 1999.
Schuyler, M. (2014). *What Would Piketty's 80% Tax Rate Do to the U.S. Economy?* Tax Foundation, Special Report No. 221. Available at http://taxfoundation.org/article/what-would-piketty-s-80-percent-tax-rate-do-us-economy
Tanzi, V., & Schuknecht, L. (2000). *Public Spending in the 20th Century: A Global Perspective*. Cambridge, UK: Cambridge University Press.
Tanzi, V. (2005). The economic role of the state in the 21st Century. *Cato Journal, 25*(3), 617-638.
Varner, C., & Young, C. (2011). Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment. *National Tax Journal, 64*(2, Part 1), 255-84. Retrieved from http://web.stanford.edu/~cy10/public/Millionaire_Migration.pdf