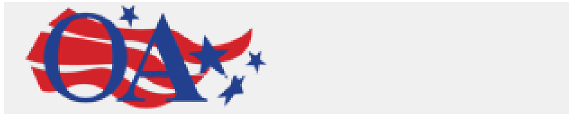

Guest View: Tax hikes kill economy

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New taxes on corporate income and capital investment proposed by President Barack Obama would weaken an already anemic economic recovery, while further eroding our nation's ability to compete in the global marketplace.

Making matters worse, Obama is pushing these tax hikes as part of his plan to run up the government's credit limit — the very policy he derided four years ago as "shifting the burden of bad choices today onto the backs of our children and grandchildren."

Obama wants to impose new restrictions on how corporations value inventory and expenses — which would limit deductions and raise corporate tax rates. He also wants to start taxing the earnings of venture capitalists and hedge fund managers as personal income — not capital gains. Meanwhile, Obama wants to expand reliance on government welfare by eliminating personal deductions for charitable giving by high-income earners.

All told, Obama's proposed tax hikes would drain $400 billion out of an economy that desperately needs this revenue to create jobs — while staking an expanded claim to the resulting dependency.

Keynesian economists — whose failed policies have led us to this thorny predicament — recently seized upon data from the Paris-based Organization for Economic Cooperation and Development (OECD) in an effort to justify Obama's proposed tax hikes.

"Corporate income tax revenue in the United States is about 25 percent below the OECD average," the left-leaning Center for American Progress bemoaned last month.

No one is disputing the accuracy of that figure — but does it really mean that taxes are too low? Or that raising them will produce more revenue?

According to the OECD, the United States paid 24 percent of its total economic output in taxes in 2009 — down from 28 percent in 2007. While this figure would seem to compare favorably with nations like Denmark (48 percent), Sweden (46 percent), France (42 percent) and Germany (37 percent), these countries subsidize a far broader array of government programs — like socialized medicine, for example.

Also, American's tax policy still insists on targeting individual income, corporate earnings and capital investment — three primary drivers of economic growth.

America's competitive position on the corporate tax front in particular has steadily deteriorated over the last decade. According to a recent Cato Institute report, twenty-seven of the thirty nations tracked by the OECD have lowered their corporate tax rates since 2000 — with the average decline topping seven percent.

Meanwhile, a 2010 report published by the European Commission revealed that the average corporate tax rate among European Union nations has shrunk from more than 35 percent in 1997 to 23.5 percent in 2009.

Because capital flows where it is welcome, these reforms have stimulated expanded investment abroad.

Yet America's corporate tax rate remains stuck at 35 percent — a number that climbs to 40 percent when state taxes are included.

"The U.S. corporate tax system has become unwieldy, inconsistent with world practice, and highly anti-competitive," the Cato report noted.

Numerous studies have established that the current revenue-maximizing corporate tax rate is approximately 25 percent, which helps explain why America's corporate tax revenues are lagging behind those of our international peers.

It's not because our nation is taxing too little, but because it is taxing too much.
Obviously maximizing government revenue will never be the objective of a true free market economy — just as expanding the scope of government will never be the objective of a true freedom-loving society.

Government should only be entrusted with such resources as are absolutely necessary to perform its core functions, nothing more.

It is ironic, though, that Obama would seek to "enhance revenue" by raising corporate taxes when it's clear that he could accomplish that objective much faster by simply lowering them.

The author is chairman of Americans for Limited Government.

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