

Limit taxation and spending

By RICK LOWE

In recent years, numerous people have recommended that the Bahamas change the current tax regime from one dominated by tariffs (import tax) to a Value Added Tax (VAT).

From government, opposition supporters and other commentators alike, the main arguments against the present structure run like this:

- * It's regressive so hurts the 'small man' or low income earners.
- * Import tariffs have outgrown their usefulness
- * Business people have to tie up inordinate amounts of cash to pay the taxes up front while they wait to sell the imported goods/product.

The arguments in favour of introducing a VAT are:

- * A VAT is progressive
- * They are levied on goods and services
- * Government income will increase

Regretfully, with the exception of The Nassau Institute, not one commentator raises the concern that government might be over spending, rather than under taxing.

That government might simply be too large.

But let's look at the moral argument that import taxes hurt low income earners for a moment. According to James A. Dorn (<http://bit.ly/gROgA3>), of the Cato Institute, a Libertarian think-tank, the idea that taxation could be "progressive" was introduced by Marx and Engels in 1848 to take capital from the "bourgeois" in increments, while the Government controlled the means of production.

Yet, even though communism failed as an economic system, the idea that 'social justice' can be achieved with so-called progressive taxation is still entrenched in the psyche of modern-day socialists.

Moral

The attempt at gaining the moral high ground in this way is lost as the entrepreneurial class is hampered in their efforts to create wealth by ever increasing taxes and regulations, and this slows economic growth, which ultimately hurts everyone. In other words, tax policy based on envy or class warfare is surely immoral. Free markets create wealth, not governments.

As long as government continues its out-of-control borrowing and spending, to paraphrase P.J. O'Rourke, giving them more money and power to tax society in ever-increasing ways and levels is like giving whisky and car keys to teenage boys.

If, at the end of the day, Bahamians agree that the tax system must be changed, I'm firmly in the camp that taxes should be as low as possible with limits on government debt and spending levels.

That said, a flat tax (<http://bit.ly/esohAy>) with Constitutional controls on government seems to be the best alternative for future generations.

Published On:Monday, February 21, 2011