THE AGE

We can't tax our way out of inequality, whatever Oxfam's economic fantasies suggest

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The latest Oxfam report's prescriptions for ending global inequality would only worsen inequality by entrenching economic influence in political hands.

In recent years, Oxfam, an international development NGO, has released reports that capture significant media attention, which have obliged political and business leaders to respond to the issues it raises about inequality around the world.

Its latest report, *An Economy for the 1%*, raises the spectre of a heavily stratified distribution of economic rewards in that people within the top 1 per cent of the global income distribution possess more wealth than the rest of the world combined.

The major headline from the Oxfam report is that a vanishingly tiny cohort of the richest 62 people living today had the same wealth as 3.6 billion people, accounting for half the global population in 2015, representing an extremely skewed distribution of wealth.

Adding insult to injury, in the period subsequent to the 2008-09 global financial crisis, most of the increase in wealth has been received by the wealthy, at the expense of the poor.

There is little doubt that these statistics are expressed in such a way to elicit the greatest shock value, but the details of the Oxfam study methodology and findings are readily open to challenge.

Numerous economists have already made light work of the dubious statistical methodology and questionable presentation of data employed by Oxfam, which artificially worsens the skew of global wealth distribution.

It has been widely noted among the critical responses that using net wealth statistics, which subtract debts from assets, amplifies the incidence of wealth deprivation, particularly in developed countries.

But as mentioned by economists such as Tim Worstall, Mathieu Bédard, and Eric Crampton, Oxfam is effectively implying that a young American with student debt and a mortgage is in some way just as badly off, if not even more so, as a farmer in the developing world lacking access to sound financial institutions and secure property rights.

It has also been mentioned in dispatches that movements in net wealth over time presented in the Oxfam report are sensitive to exchange-rate movements, rendering an attempt to interpret any sense of a data trend almost meaningless.

In fairness, Oxfam concedes the seismic reductions in the numbers of people around the world living in extreme poverty, most recently defined by the World Bank as earning $US1.90 ($2.64) a day or less, over the past few decades is a profoundly significant development both in economic and social terms.

The NGO also decries the extent to which material inequalities are influenced by "rent-seeking" activities, whereby firms and other economic actors strive to attain advantages "through entrenched relationships with people in power, the distortion of regulations and laws in their favour and the exploitation of market failures to their advantage".

The problem with political lobbying, and similar forms of rent seeking, is not only that it diverts scarce resources toward the pursuit of political privileges coercively enforced by the state.

As Oxfam correctly indicates, the securing of discriminatory tax, regulatory or subsidy benefits benefiting one or some, at the expense of all others, effectively tethers the relationship between income or wealth generation and the attainment of productivity or added value.

These perspectives happen to be shared by classical liberals and libertarians, who have long warned of the grave risks of rent seeking not only for the performance of the economy but the maintenance of freedom itself.

Despite having correctly identified several sources of wealth inequality generated through rent seeking, Oxfam curiously engage in a most glaring form of cognitive dissonance when arguing in favour of even more government intervention as the solution to redress inequality.

A more precise reading of the Oxfam position goes is that they see a *recombination* of, rather than a *reduction* in, political privilege as the most appropriate response to the observed wealth distribution it trenchantly criticises.

But the problem with this intellectually awkward outlook is that it enables Oxfam to pick and choose, albeit with no strong basis in logic or principle, which policy changes it deems best to serve the objectives it wishes to pursue.

The proposition that low-taxing jurisdictions, such as tax havens, should desist from providing economically friendly fiscal climates, or that taxation authorities should more severely punish individuals and firms that avoid punishing tax liabilities, is a case in point.

Oxfam says "fairer" (read: more burdensome) taxation regimes are key to suppressing inequality, not only because governments can use the additional revenue proceeds to fund more public services for the poor but because the rich will be compelled to pay their tax dues.

If only it were that simple.

The available empirical literature largely indicates raising tax rates or extending tax bases would not only serve to diminish the capital stock which, in turn, aids labour productivity, but it would constrain the incentive for workers to supply more labour.

Both of those economic effects would tend to deprive income-earners, who are usually less well off, of even better opportunities to accumulate their own wealth and help to some extent even out the distributional skew.

By raising the relative cost of productive activities such as entrepreneurship and innovation, higher taxes would also be counterproductive because they discourage new entrants from entering markets and undercutting the economic influence of crony capitalists.

Another problem with the Oxfam perspective is that suppressing taxation competition may, given Laffer curve effects, increase the capacity of governments to collect even more revenue, enabling politicians much greater potential to allocate fiscal benefits and motivating even more rent seeking.

It is argued that increasing the power to tax is justified on the grounds of reducing material inequalities, but as American economist Daniel Mitchell has pointed out, there are considerations of justice which, in fact, rationalise tax competition principles.

Low-tax environments enable minorities and other groups subjected to financial suppression by the state to find a safe haven for their incomes and assets, thus ensuring their wealth is not unjustly expropriated.

There is also insufficient attention by Oxfam to the fact that shadow economies are extensive around the world partly because of punitive tax regimes, and so the implications of higher taxes on inequality, given the presence of a shadow economy, need careful consideration.

Oxfam has served up an impassioned plea to reduce extreme discrepancies in wealth holdings, citing rent seeking pressures as a key cause of inequality.

But its policy recommendations will only magnify coercive political control over the distribution of resources within societies, exacerbating the very inequality problem it seeks to address.