

The world's greatest financial fraudster

How the U.S. government wastes \$1 trillion every year

By Richard W. Rahn

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The London Times headlined last week, "HSBC helped customers to hide millions from taxman." There are decades of stories about corporations, movie actors, artists and politicians hiding money from the taxman. Many economic studies have shown that once tax rates exceed 20 percent, most people will start thinking about and then acting in legal or illegal ways to avoid the tax bill.

The reason there is so little remorse about tax avoidance and evasion is that virtually everyone knows that much of what government does is a ripoff. If people really believed that "government is underresourced" and spends its money wisely, they would not take legal charitable and other deductions when they file their income taxes. Even a big-government liberal like President Obama makes charitable deductions because he knows or suspects that the charities he gives to will spend the money more wisely than the government he oversees. The president's buddy, Al Sharpton, is welcome at the White House almost any time, even though the Internal Revenue Service reportedly claims he owes millions in unpaid taxes. If Mr. Sharpton had robbed a supermarket of a mere \$10,000, it is unlikely he would be welcome at the White House. The message is obvious. The government even tells us that federal employees, including thousands at the IRS, owe billions in back taxes, yet little is done. At the same time IRS leaders have the unmitigated gall to demand larger budgets.

Every thinking person implicitly knows that the U.S. government is the world's biggest financial fraudster. The cumulative yearly fraud by government actors is well in excess of \$1 trillion and takes many forms. It begins with the IRS overcharging citizens by doing such things as engaging in "asset forfeiture" — that is, seizing banking accounts and other property of individuals and businesses who have not been convicted of any wrongdoing. The IRS taxes the portion of capital gains due solely to inflation as "income" when it is clearly not.

Government is notoriously mismanaged, wasteful and fraud-ridden. Last May, the Economist magazine reported: "In 2012 Donald Berwick, a former head of the Centers for Medicare and Medicaid Services (CMS), and Andrew Hackbarth of RAND Corporation, estimated that fraud

added as much as \$98 billion, or roughly 10 percent, to annual Medicare and Medicaid spending and up to \$272 billion across the entire health system." Similar amounts of fraud are found in most every federal government program — Social Security, food stamps and other welfare, defense spending, and now Obamacare. A private company subject to the degree of fraud, waste and mismanagement found in government would soon be driven out of business.

We lock our doors in order to keep bad folks from stealing our stuff. If that doesn't work, we add more locks and a security system to keep the thieves at bay. Massive theft of government (i.e., taxpayer) funds and property goes on and is tolerated decade after decade because too few in government care "about locking the doors" (it's not their money) and are not held responsible for the losses, let alone mismanagement.

The government has been ripping off every saver to the tune of hundreds of billions a year for the last few years. The Federal Reserve has been artificially holding down the rate of interest paid to most savers in order to cheaply fund government spending, and to subsidize favored big banks, companies and others. If you have worked hard to save a \$100,000 you most likely expected to receive interest equal to about 5 percent per year on your savings. (Note: the long-term real rate of risk-adjusted return to capital is approximately 3 percent, plus 2 percent inflation totals 5 percent.) Rather than receiving the expected \$5,000 in interest on your savings account, you probably received less than \$2,000. The missing \$3,000 was taken through a non-legislated tax increase managed by the Fed with the blessing of the Obama administration and the majority in Congress.

An even bigger fraud has been the result of destructive tax and regulatory policies which have substantially diminished economic growth. Last week in an article in *Investor's Business Daily*, former U.S. Treasury officials Ernest Christian and Gary Robbins, using the updated Tax Foundation dynamic scoring model, reported that the roughly \$2 trillion in income tax receipts gathered cost the U.S. economy \$3.2 trillion in lost output (and millions of jobs). These figures are similar to many other studies that show more than a dollar of output is lost for every dollar of income tax raised.

If the federal government was downsized to do only the tasks given to it by the Constitution, and if the management and fraud-prevention controls that every large business uses were put in place, there would be no need for an income tax. Without the income tax, the economy would be much larger, with millions of additional jobs and higher real incomes for most everyone. And the crime of income tax fraud would disappear, along with all of the stress and resulting ill health that the IRS imposes on taxpayers.

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