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20 to 1 taxation a raw deal for taxpayers

David Roberts - The Independent
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Is reducing people's income $20 to make $1 in tax revenue a good deal?
Does anyone from either party think that would make this a richer, more productive country? If you knew that would be the outcome, would you still insist on higher tax rates, just to punish those who perhaps make more than you?
Two economists, one from the University of Chicago and one from the Federal Reserve Bank, neither of whom really have a dog in this fight, have released a new study of the Laffer Curve.
Or curves, really. There's more than one.
Although named (by a journalist, of course) for Arthur Laffer, he was always quick to point out that the idea goes back past John Maynard Keynes to the Muslim philosopher Ibn Kahldun in 1377.
Laffer was simply trying to point out that tax rates of zero and 100 percent produce no taxes and that there must be a tax rate in between that produces the maximum revenue for the ruling class.
An unintended benefit for anti-tax fans is that they use it to demonstrate that as tax rates go up, government income goes down.
The curve can be used in several formats, however, and Mathias Trabandt of the Federal Reserve Board of Governors, and Harald Uhlig of the University of Chicago Economics Department use them.
It is their curve representing labor taxation (income tax) that interests us the most, because that directly affects every citizen.
The curve shows that neither the United States nor the European Union are at their maximum income tax rates for raising government revenue. Both are near the "slippery slope" of downward revenue projections on capital gains taxation.
Looked at in a vacuum, in fact, it would appear that U.S. tax rates could just about triple before government revenues would fall off the cliff.
The government doesn't live in a vacuum, though. It is supposed to be a government "of the people, by the people, and for the people." The same people that would be hurt by such taxation.
When human capital is added to the equation, you get the 20/1 ratio we opened with.
With human capital figured in, U.S. tax rates would double before revenues starts to fall.
Tax revenue, in this scenario, only goes up about 10 percent.
Taxable income, thus, is smaller, due to any number of factors. Daniel J. Mitchell of the Cato Institute suggests those reasons include lower production, but also tax avoidance (legal) and tax evasion(illegal).
So is it wise for our elected representatives to reduce our taxable income by $20 to gain maybe $1 in revenue? Is that healthy for the country's, or the family's economy?

Do we not have enough family problems in this country already without reducing the dollars necessary to raise one?

“Once again,” says Mitchell, “the loss of taxable income to the private sector would dwarf the new revenue for the political class. And the question from above bears repeating. What should we think about politicians willing to make that trade?”