

## What Was the Most Tragic Policy Development of 2012?

By: Daniel J. Mitchell – January 2<sup>nd</sup> 2013

I'm not sure I could pick out a significant victory for human freedom in 2012.

Maybe I'm missing something, but the only good policy that's even worth mentioning was the decision in Wisconsin to rein in the special privileges and excessive compensation for government workers.

But there definitely have been lots of sad developments.

The hard part is picking the most disappointing story.



1. Was it the craven decision by John Roberts to put politics before the Constitution and cast the deciding vote for Obamacare? This certainly could be the most disappointing event of the year, but technically it didn't represent a step in the wrong direction since the Supreme Court basically gave a green light to unlimited federal power back in the 1930s and 1940s. The Obamacare case is best characterized as a failure to do the right thing. A very tragic decision, to be sure, but it maintained the status quo.

2. Was it the lawless decision by the Internal Revenue Service to impose a horrible regulation that forces American banks to put foreign law above U.S. law? This was a very bad development in the battle for tax competition, financial privacy, and fiscal sovereignty. But in the grand scheme of things, it's just another in a long line of policies (such as FATCA) designed to increase the power of governments to impose and enforce bad tax policy.

3. Was it the Japanese government's decision to double the value-added tax? I'm definitely not a fan of adding a VAT on top of the income tax, but Japan made that mistake years ago. The choice to increase the tax rate just shows why it's dangerous to give politicians any new source of revenue. So this isn't the worst policy development of 2012, particularly since the new Japanese government may suspend the tax hike.



4. Was it the delusional decision by 54 percent of California voters to impose a big, class-warfare tax hike? I thought the vote for Prop 30 was a very troubling development since it signaled that voters could be tricked into enacting class-warfare tax policy, even though they should have realized that more revenue for the state's politicians would simply exacerbate the eventual fiscal collapse. But since I think this will be a learning experience on what not to do, I can't put this at the top of my list.

5. Was it the French government's punitive decision to impose a 75-percent top tax rate? This is a spectacularly misguided policy, and it's already resulting in an exodus of entrepreneurs and other successful people. But just as I enjoy having California as a negative role model, I like using France as an example of bad policy. So it would be a bit hypocritical for me to list this as the worst policy of 2012.

6. Or was it the envy-motivated decisions by politicians in both Slovakia and the Czech Republic to replace flat tax systems with so-called progressive tax regimes? This is a strong candidate for the worst policy of the year. It's very rare to see governments do the right thing, so it's really tragic when politicians implement good reforms and later decide to reinstate class-warfare policies.

All things considered, I think this last option is the worst policy development of 2012. To be sure, I'm a bit biased since my work focuses on public finance issues and I've spent 20 years advocating for tax reform.

But I think there's a strong case to be made, by anyone who believes in freedom, that politicians from Slovakia and the Czech Republic deserve the booby prize for worst public policy development of 2012.

Alvin Rabushka, sometimes referred to as the Father of the Flat Tax, summarizes the grim news.

*On December 4, 2013, the center-left parliament of Slovakia modified the country's historic 19% flat-rate tax... Effective January 1, 2013, the income tax rate for corporations was raised from 19% to 23%, while that on individuals earning more than €39,600 (€1=\$1.30) a year was raised to 25%, thereby creating two brackets of 19% and 25%. ... On November 7, 2012, the lower house (Chamber of Deputies) of the national parliament approved a proposal to impose a second higher rate of 22% on annual income exceeding Czech Koruna (CZK) 100,000 (\$5,200) per month. President Vaclav Klaus signed the bill on December 22, 2012, which will take effect on January 1, 2013.*

What's especially depressing about these two defeats is that the supposedly right-wing parties deserve the blame.

## Czech and Slovak Republics



Two nations filled with brain-dead conservative politicians

In Slovakia, all but one of the right-leaning parties in the old government decided to support the Greek bailout, leading to the collapse of the government and the election of a new socialist government that then sabotaged tax reform.

And in the Czech Republic, the current right-of-center government decided to scrap the flat tax for “fairness” reasons. I’m sure that will really be comforting to the Czech people as the economy suffers from less growth.

To understand what the people of those nations are losing, here’s my video on the flat tax.

Now for a bit of good news. There are still more than 25 flat tax jurisdictions in the world, including two of my favorite places – Hong Kong and Estonia.

So there are still some pockets of rationality. It’s just very unfortunate that the scope of human liberty is getting smaller every year.

P.S. The absolute worst thing that happened in 2012, if we look beyond public policy, was Georgia falling 4 yards short of beating Alabama in the Southeastern Conference Championship.

P.P.S. Speaking of sports, the best thing about 2012 occurred in Virginia Beach back in October.