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The Why and How of Sound Tax Policy

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Introduction

In 1696, King William III of England needed money, so parliament introduced a window tax; the more windows a building had, the more its owner had to pay.[1] The tax was meant to be progressive, as more windows usually indicated more wealth and greater ability to pay, but in practice it greatly hurt the poor. In urban cities, such as London, the poor mostly occupied large tenement buildings which, having many windows, qualified for heavy taxes. Rather than landlords bearing the extra cost, the burden passed to tenants through higher rent prices. Worse, some landlords, to qualify for a lower tax rate, removed windows altogether, at a time when the only source of indoor light other than the sun was a dim, smoky candle.[2]

The tactic of removing windows to evade higher taxes quickly spread. Initially, buildings with fewer than ten windows were exempt, but in 1766 that number was lowered to seven, and thereafter the total number of houses in England with seven or more windows reduced by two thirds.[3] When the tax tripled in 1797, one carpenter testified to parliament that a whole street asked him to remove their windows.[4] In 1850, Charles Dickens lamented, “The adage ‘free as air’ has become obsolete ... Neither air nor light have been free since the imposition of the window-tax.”[5] The tax was not repealed until 1851 after campaigns of doctors urged that dark, stuffy, windowless housing was driving the spread of deadly diseases, such as typhus and cholera.[6] It is said that when parliament debated the tax, opponents cried, “Daylight robbery!”

This story is sometimes recounted as a preview of our fate if we fail to stem government expansion, but that is the wrong lesson to draw. *The real lesson is about the pitfalls of unwise and unprincipled tax policy.* The window tax was a disaster not because it was a tax intended to raise revenue, but because it represented a bad choice about where and how to draw revenue. Ultimately, it was inefficient, raising much less revenue than expected, uneconomical, nudging people to spend resources in ways that were otherwise wasteful and irrational, such as paying to remove a perfectly good window, and immoral, ultimately harming the physical and psychological well-being of citizens.

The importance of sound tax principles is underappreciated across the political spectrum. Most liberal rhetoric on taxation focuses on dividing the tax burden equitably, and most conservative rhetoric focuses on reducing the total size of the burden. Meanwhile, the issue of improving *how* taxes are administered is largely overlooked. Of course, it is good and necessary to tax in a fair and equitable way, and it is equally good to end all unneeded fiscal spending and to cut all unneeded taxes. But it is a mistake to focus solely on adjusting tax rates, and never devote effort to making the taxes themselves better.

There are three reasons why, regardless of one’s party affiliation, it is a mistake not to prioritize sound tax policy. First, some taxation is inevitable. That is because government is inevitable, obviously, and the only realistic way to finance government is through a tax system. This fact was echoed by Ben Franklin when he famously said “nothing in this world” is certain “except death and taxes,” and again by Winston Churchill when he called taxes “a necessary evil.”[7] Though unpleasant, taxes are inescapable, so the only choice is between designing taxes well or simply being imprudent. Even if someday the government were significantly downsized, some remainder would persist and need funding, and whether it would be funded efficiently or disastrously would greatly depend on how, not just *how much*, citizens are taxed.

Second, whether one favors a limited government or an expansive one, designing sound taxes should be a priority because *un*sound taxes greatly exacerbate fiscal waste. This is discussed more below, but one clear way a tax can needlessly enlarge the government is by being needlessly complicated to administer. All taxes involve administrative costs; someone must determine what rate is appropriate, what credits, deductions, or exemptions apply, and what actual amount is owed. This process requires time and money, but how much time and money depends on whether the tax is simple or complicated.

Naturally, more complicated taxes impose higher administrative

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costs. Some of that extra cost is borne *in*directly by taxpayers. For instance, 60 percent of Americans pay a professional to calculate their federal income taxes, for an average bill of $258.[8] But much of the cost is borne directly by the government. The Internal Revenue Service has about 75,000 employees and an annual budget exceeding $11 billion[9] – the equivalent of a third of Vermont's GDP.[10] It is broadly agreed that the federal tax code is unnecessarily complicated, imposing gratuitously high administrative costs. Therefore, an easy way to trim some government fat would be to simplify the tax code and downsize the IRS – without having a single partisan debate about the merits of other, more politically sensitive budget items.

Third, the budget will always include superfluous, unjustifiable items, and it is unrealistic to wish otherwise. This should not dull our efforts to minimize government waste, as it is good and necessary to cut wasteful expenditures. But there is a tradeoff; if initial efforts to trim the budget fail, exerting additional effort starts to have diminishing returns. At that point, rather than beat a dead horse, it would be better to design smart taxes to finance the existing budget in an efficient, economical way.

Four Essential Tax Principles

So, if we value responsible government, we should, of course, advocate less wasteful budgets, but simultaneously we should advocate *smarter taxes* to finance whatever budget gets approved. But *how* exactly is this achieved? Fortunately, economists from Adam Smith through the present have offered helpful guidance. Two and a half centuries ago, Smith wrote in *The Wealth of Nations* about various principles that should guide tax policy, most notably including that taxes should (1) have a neutral effect on the economy, (2) be transparent and open, (3) not be overly complex, and (4) be paid at predictable times and collected from stable sources.[11]

Not much has changed in the ensuing centuries. Smith's principles were endorsed by subsequent giants in economics, like David Ricardo and John Stuart Mill.[12] Indeed, Mill's 1848 *Principles of Political Economy*, which many economics departments around the world, including Oxford University, used into the 20th century,[13] simply reiterates Smith's maxims and remarks that they have "become classical."[14] Today, Nobel laureate Joseph Stiglitz' *Economics of the Public Sector* is an authoritative source on the economics of taxation, and its advice also closely mirrors Smith, with some modern tweaks, of course.[15]

The point is, *designing good tax policy is not rocket science*. The hard empirical research has already been done. What work remains is to implement the insight and knowledge that already exist. No doubt, in the literature on tax principles, there remains fervent debate about various details, and there is no sign of resolution anytime soon. But there is broad agreement about the general principles that should be followed to make taxes more efficient, more economical, and more ethical.

Neutrality

The first and probably most urgent principle that should guide tax design is *neutrality*. That is, whenever possible, avoid disrupting the natural operations of the economy. Instead, taxes should have a neutral impact, meaning they do not distort prices, dilute the incentive to work and invest, or discriminate against one form of economic activity in favor of another. In short, people should make choices for their economic attractiveness, not to avoid being taxed.

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Of course, it is impossible to achieve perfect neutrality, as any tax on a commodity or service necessarily raises the price, and that will invariably influence how people shop; some number of people will buy less, find alternatives, or simply abstain from the taxed good. Nonetheless, the goal should be to design taxes that approach neutrality and approximate the ideal free market, where prices are set, work efforts are organized, and goods are allocated spontaneously through the innumerable little, daily choices of millions of economizing agents.

To understand why economic neutrality is of central importance, and why taxation can only make economies less efficient to varying degrees, never more efficient, a very basic understanding is required of what economic efficiency means and how it is achieved at all. In a world of scarce resources, where what we have will always be finite and less numerous than we, as beings with insatiable desires, might wish, we must economize. To economize means to use available goods in the most efficient way, that is, in whatever way maximizes value and satisfies the greatest number of our wants and needs. The ultimate goal is perfect efficiency, or 'Pareto efficiency', a situation in which goods are allocated so that any *re*allocation could only improve one person's lot by worsening another's.[16]

But achieving this state of efficiency, or something resembling it, requires *heaps of information*; to know the best use of a good, we must know how much of it there is, what all its possible uses are, and what preferences people have about each possible use at different prices. The problem is, this crucial information, rather than centrally located in a single source, is dispersed across millions of minds; only individuals know their exact preferences and needs.

It may seem puzzling how to mobilize this vast and unruly information, and indeed how to do so in a centralized, bureaucratic way *is* a great puzzle; every government that has tried to solve it has failed spectacularly. Yet the puzzle *has* a solution; as Leonard Read once observed in "I, Pencil," the forgotten pencil in one's desk drawer, mundane as it is, was produced in a wondrous process involving equipment and ingredients from around the globe and the coordinated efforts of total strangers, from the graphite miner in China to the lumberjack in Oregon, who might hate each other if they ever actually met.[17] There is no human planner directing things from above; *it is the natural workings of free markets*. In a free market, the requisite information to allocate resources maximally efficiently is distilled into *prices*, the spontaneous creation of millions of buyers and sellers bidding for goods.

Prices act as signals of how much supply of a good is available and how intensely it is demanded, and fluctuations in supply and demand, which are rapid and constant, are automatically communicated to all by *changes* in price. As Friedrich Hayek noted in his classic essay, "The Use of Knowledge in Society," if there is a graphite shortage in China, even if just a handful of individuals know about it, the price will adjust, and that will seamlessly communicate to everyone in every remote corner of the economy to use the resource more sparingly.[18] This is what economists have been trying to tell us for centuries; when people are empowered to own private property and to do with it what *they* judge best, an efficient allocation of goods spontaneously emerges, as if by an invisible hand, in Adam Smith's famous words.

It should now be clear why striving for neutrality when designing taxes is imperative; free and undisturbed markets, through a price system, mobilize the vast body of information needed to efficiently allocate goods. The price tags lining the shelves at the local grocery store are not haphazardly set; rather they are units of crucial information to individual shoppers about how various goods are valued in the whole economy. But taxes, by artificially raising prices, *degrade* that crucial information. They inject *dis*information into the economy, especially if applied in an arbitrary or uneven way, which individuals invariably act on, and the result is less efficiency. That is, less stuff is produced, and what *is* produced is distributed in a way that fails to maximally satisfy needs and wants.

The goal, then, when levying taxes, is to change behavior as little as possible; we want people to conduct their economic lives almost exactly as they would in a free and natural situation, undisturbed by taxes. This is the path to the greatest revenue for government, prosperity for citizens, and justice for society, as more productivity implies more potential revenue sources, more wealth creation, and more opportunities for mobility and flourishing for all.

Each tax should be evaluated individually for neutrality, but a few general conclusions can be drawn. First, the motto, "Broader base, lower rates!" is wise advice. Low tax rates have a gentler impact on prices and the incentive structure they underpin, and broadening the scope of a tax avoids skewing prices in favor of one industry or one form of economic activity over another. It is a fallacy to think that a narrow base paired with high rates is equally efficient as a broad base with low rates. The latter is more efficient because it more gently impacts behavior and reduces the amount of disinformation injected into the economy.

Second, great caution must be taken not to discourage work, investment, or other productive activities. While all taxes distort prices to varying degrees, some taxes do so more than others. Many economists argue that, of the taxes we pay on earnings, the payroll tax has the smallest impact on behavior because it targets all labor income proportionately, but not profits, and thus avoids discouraging businesses from investing in equipment or other capital that increases productivity.[19] In contrast, the corporate income tax directly discourages investment by increasing the costs involved, and the personal income tax directly discourages productivity by eroding the incentives that drive individuals to work. Even now, in an age of pervasive automation, we owe our prosperous condition to human input, that is, work. But work is disagreeable; we only do it for the rewards involved, namely the income, which we spend on things we need and want. Thus, taxes that reduce the rewards of work, and thereby reduce the motivation to work, represent a serious threat to our prosperity and should be avoided. It might be better to expand the sales tax, as consumption, especially of necessary goods like groceries, is much harder to discourage than work.

Third, taxes should not be used as a means of engineering or tinkering. Before Adam Smith, it was credible to support active government involvement in the economy, but modern economics has discredited this, revealing instead that government plays a *passive* role in the amazing, decentralized process by which wealth is created. Active intervention only encumbers this process.

Transparency

Jean-Baptiste Colbert, an advisor to King Louis XIV of France, once wrote, "The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing."[20] It is a funny line, but do not let that overshadow the mischievous underlying motive; Colbert was advocating that citizens be subjected to *un*transparent taxes, that is, taxes that are, by design, so sneaky and hidden that most citizens do not realize they exist. It is undoubtedly *possible* to design taxes this way, especially now, in an economy that is many times bigger, busier, and more intricate than that of 17th century France.

But assuming that we, unlike Colbert, care about the common interest over the interests of the ruling few, taxes should be designed to follow the principle of *transparency*. That is, at all times, it should be exceedingly clear what taxes there are, who is paying – or on whom the tax burden really falls – and who is benefitting from the revenue. While untransparent taxes disguise the true cost of government, transparent taxes help to make it more clear how much money government is siphoning from the economy and whether it is spent wisely or squandered.

There are two key reasons why hiding the cost of government is wrong. The first is that it is *uneconomical*. No doubt, some government is necessary, but how much and at what price is largely an economic choice, a question of how many private resources should be allocated to public ends so as to satisfy the greatest number of needs and wants. There are many possible ways for the government to provide value, from policing crime to developing infrastructure to maintaining a social safety net, but which *actual* undertakings merit funding greatly depends on the precise amount of value provided relative to the cost. To fund an undertaking that is simultaneously expensive and not very valued by taxpayers would be an inefficient use of resources.

How, then, should it be decided what size of government, at which price, is right? The traditional answer in the United States is democracy, a system wherein the millions of individuals who *know* what they want participate, with equal influence, in political decision-making, through various direct and indirect means. Ideally, the democratic process builds consensus about which government undertakings are valuable enough to justify the price, and which are not. But sneaky, untransparent taxes, by concealing the full cost of government, distort this process. Citizens obviously cannot weigh the costs of government against the benefits if it is highly ambiguous what the exact costs and benefits are. It is very easy to imagine how citizens might be duped, without their consent, into buying more government than would be truly efficient, given their particular needs and wants, simply by being taxed in hidden and dishonest ways.

The second reason concealing the full cost of government is wrong is it violates our intuitive notions of justice. It is a very basic idea that government is only legitimate to the degree that it is consented to. The same is true of taxes; they are just only insofar as they are consensual. This is not some vacuous libertarian moralism; it is a serious idea with influence in American history. One of the major grievances of the American Revolution was the belief that Britain was subjecting the colonies to 'taxation without representation' – that is, taxation without the implied consent that can only be conferred by inclusion in the legislative process.[21] Every high schooler learns about Shay's Rebellion and the other 18th century tax revolts. Henry David Thoreau wrote *Civil Disobedience* in protest to a poll tax he did not consent to.[22] The point is, ordinary people recognize taxes to be unjust without consent. Yet that is what untransparent taxes are, *unconsented* taxes, because they are *unknown* and citizens obviously cannot consent to taxes they do not know they are paying.

Despite this, it is common for states to have hidden taxes that average consumers probably do not know exist. In New York, whole bagels are not taxed, but sliced bagels are.[23] In California, there is a 33 percent tax on fruit from vending machines.[24] In Arkansas, there is a tax on tattoos.[25] In Colorado, coffee cups are not taxed, but coffee cup lids are.[26]

There are also more familiar taxes that average consumers may not realize have untransparent elements. For one, there are state and federal corporate taxes, which are meant to be paid by corporations but really are not, at least not fully. Most people know the corporate tax exists, but they probably do not know that according to very moderate estimates, workers bear 20 to 25 percent of the corporate tax burden.[27] That number could be much higher; it is difficult for economists to say.[28] Thus, the corporate tax is untransparent in two ways; it imposes costs on workers unknowingly, and because of the nature of the tax, it is hard to determine who really shares the burden and exactly how big their individual shares are.

Another familiar tax with untransparent elements is the payroll tax. Again, most workers know that it exists and their employer is paying it, but they probably do not know that the burden of the tax is mostly borne by *workers*. In fact, economists estimate that workers bear almost the entire burden.[29]

Simplicity

It is common for taxpayers in the United States to complain not just about how much their taxes are, but how hard it is to pay them. In 2015, Pew Research Center found that Americans are significantly more bothered by *how complex* taxes are than by how much they pay.[30] That is not surprising. Many of the taxes we pay, such as the federal income tax, require frustrating amounts of time and effort to keep records, complete forms, and sometimes even hire accountants and tax lawyers. Indeed, according to one estimate, the indirect cost of overly complicated taxes imposed on taxpayers is at least five times greater than the direct cost to government.[31] In other words, multiply the enormous administrative expenses involved in collecting taxes – including the massive budget of the IRS – by a factor of five, and *that* is the size of the burden of complex taxes on the private sector. That is alarming.

But thankfully, it does not have to be this way. Taxes should be designed to follow the principle of *simplicity*. That is, wherever possible, avoid designing taxes to be gratuitously complicated, making them instead as convenient as possible for taxpayers to

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pay and as cheap as possible for government to administer and enforce. Of course, some costs are inevitable, so we better get used to the irony that we pay some taxes to fund the collection of other taxes. But that does not excuse complacency about the unnecessary costs.

When taxes are overly complicated, the obvious result is wasted time and money both within the government itself and in the economy. In the case of government, every dollar spent on officers, administrators, auditors, lawyers, and the equipment and space needed for them to operate is a dollar that could have been allotted to another, more valuable political objective. This is unfortunate, because the goal of government should be to maximize the gap between the value it creates and the costs it incurs along the way. That is, it should provide the greatest value at the lowest cost. If the same total value can be provided at a lower total cost merely by simplifying how citizens are taxed and thereby cutting administrative costs, it is stupid and wicked *not* to do so.

As for the economy, the effect of overly complicated taxes is reduced efficiency. First, when taxes are gratuitously expensive to collect, the government must siphon more money from the economy to cover the extra administrative cost, and that means less money than otherwise is spent on consumption, less is saved, and less is reinvested into business. Second, there is also the reduced efficiency that results from large businesses using precious resources to comply with complex tax rules, or to minimize their tax liability. Warren Buffett's Berkshire Hathaway is known to spend great amounts of money in search of tax-efficient deals, money that could be spent on more, better business.[32] Third, complex taxes also create an artificially high number of tax lawyer jobs, which in turn artificially diverts some number of smart and talented people *away* from careers in medicine or education *to* careers in tax law.

Again, taxes must be evaluated on an individual basis, but in general we should aim to reduce the total number of taxes and instead impose *broader* taxes, and we should do this with urgency, given the rate at which new tax laws and rules – i.e., new complexities – are created. The federal tax code, at least, has multiplied in complexity since just the 1950s, growing from 1.4 million words of laws, rules, and regulations to over 10 million words today[33] – 13 times longer than the Bible. States have witnessed similar rates of growth in tax complexity, and Oklahoma is one of the worst. According to the Progressive Policy Institute, Oklahoma has the ninth most complex tax code in the nation, with almost 500 different tax expenditures[34] – credits, deductions, exemptions, or other complex opportunities to avoid paying taxes, which may require great effort, even expertise, to take advantage of.

Predictability

A final principle that should guide how taxes are designed is the principle of *predictability*. That is, citizens should pay taxes in a predictable way, at predictable times, and in predictable amounts, and the taxes themselves should target sources that can be expected to produce steady revenue. There are obvious reasons why, from a taxpayer's perspective, taxes are better when the amount owed is predictable and the deadline to pay is likewise. Taxes are already a pain, and introducing an element of unpredictability exacerbates this. But the reasoning behind predictability goes beyond this. There are vital reasons why tax predictability has fiscal and economic benefits, and why its opposite has great disadvantages.

When taxes are erratic, whether due to excessive adjustments in rates or excessive adjustments to payment deadlines, the result is less economic efficiency, as excessive burdens are placed on entrepreneurs, the backbone of the economy. It is true, in a way, that decentralized market economies have great power to naturally allocate resources to their best uses. But, then again, 'economy' is just an abstract word, and as Oliver Wendell Holmes wisely commanded, we should think things, not words.[35] What 'economy' really refers to is the collective action of individual people; that is, the reason goods in a decentralized economy are allocated efficiently overall is ultimately because of individual choices about how to allocate particular goods in particular circumstances. Obviously, every person engages in this micro-economizing to some extent, but largely it is entrepreneurs, small and large, who drive the decision-making process about which resources to invest in which potential endeavors.[36]

When entrepreneurs make judgments, they accept certain risks; if the endeavor they choose turns out to be unprofitable, the losses are their responsibility. Thus, careful calculations are made about which potential endeavors present the highest reward against the lowest risk, and overly risky endeavors are avoided altogether. This is natural, but unpredictable taxes introduce *artificial* risks. If, for example, there is some speculation that the next legislative session will produce a ten percent rise in the corporate tax rate, this may deter some business ventures from being explored at all, even if a rise is not guaranteed, because the risk-reward calculation may be sufficiently influenced.[37]

From a fiscal perspective, the presence of a different kind of unpredictability, namely volatile revenue, is bad because it causes financial instability within the government; it is impossible to balance the budget if revenue is highly volatile from year to year. This uncertainty within the government may have further economic downsides. If legislators respond to upward fluxes in revenue with more spending, and downward fluxes with more taxes, it will artificially increase the risks that entrepreneurs face and, to that extent, discourage business.

Given this, extreme care should be taken to reduce the amount of uncertainty within both the government and in the economy. We should avoid situations where rates change every time there is a new regime, as this artificially increases market uncertainty,[38] even if that might mean leaving rates too high in some special cases. As Antonin Scalia explained in his seminal paper, "The Rule of Law as a Law of Rules," in some cases, it is good to preserve some small injustice in the law, such as a slightly excessive tax rate, if it means avoiding instability, because instability is an injustice in itself.[39]

We should also avoid unsteady sources of tax revenue. Again, this is especially urgent in Oklahoma, where according to an analysis by Pew Trusts, tax revenue is the tenth most volatile in the nation.[40] Our most volatile tax is the severance tax, which targets oil, gas, and other natural products whose markets themselves are volatile, given energy prices fluctuate quite often relative to prices in other industries.[41] Another highly variable revenue source in our state is the corporate income tax; corporate profits also frequently vary due to natural market forces.[42] Taxes on property and sales have proven to be considerably more stable than taxes on income, whether corporate or personal.

TABLE 1 — **Common State-Imposed Taxes and Whether They Follow the Four Tax Principles**

	Neutral	Simple	Transparent	Predictable
Value-Added	✗	✓	✗	✓
Payroll	✓	✓	✗	✗
Personal Income	✗	✗*	✓	✗
Corporate Income	✗	✗	✗	✗
Sales	✓	✓	✓	✓
Property	✓	✓	✓	✓

**While an income tax can be made simple, such as a flat tax, this evaluates the current system.*
Source: Author's judgment

Interplay Between Principles

Before concluding, it is important to note that basing tax policy on sound principles has compounding benefits when done right. The previous sections discuss the individual benefits of each principle – for example, simplifying taxes will expand the gap between how much total value government creates and how much it costs – but there are even greater benefits when two or more of the principles are followed simultaneously. For example, a simple tax will also be more transparent. This is rather straightforward, conceptually speaking; when taxes are simple and broad, it is much harder for mischievous legislators to hide them, easier for taxpayers to understand how their lives are impacted, and easier for economists to analyze what the effects of the tax are.

There are many other cases where the principles reenforce each other. A predictable tax, whose rate undergoes few and small adjustments over time, will also be a more neutral tax; when entrepreneurs are not preoccupied with the artificial risks created by unpredictable rate adjustments, they will behave more like they would in a free and natural situation.

Also more neutral are simple taxes. When taxes are highly complicated, two major economic distortions occur. First, businesses are incentivized to spend time and resources identifying tax-efficient deals, which would not be a concern in a more free and natural market. Second, while all businesses are incentivized to minimize their tax liability, successfully doing so often requires hiring expensive experts and specialists, and not all businesses can afford this to the same degree; large corporations are greatly advantaged. Thus, the market will be artificially distorted in favor of larger corporations.

There are also important benefits when all of the four principles are followed simultaneously. For one, taxes that are at once neutral, transparent, simple, and predictable will ensure *greater compliance*. For example, one motive behind tax evasion is the perception of unfair tax treatment across industries or individuals, but neutral taxes award no special favors to any particular industry or person.

Further, simple taxes promote compliance in two ways. First, they are more convenient for honest people to comply with, whereas needlessly complicated taxes create an incentive for otherwise honest people not to comply, simply to avoid the pain of inconvenience. Second, another factor that influences the level of tax compliance is whether citizens can reasonably expect punishment if they fail to comply, but that means government officials must efficiently *monitor* tax laws and rules. Thus, simple taxes promote compliance to the extent that they are easier for officials to monitor.

The second benefit of following all four principles jointly is *reduced corruption*. When taxes are neutral, transparent, simple, and predictable, it is harder for bad actors within the government to misuse their office. For example, when taxes are overly complicated, it is possible for collection officials to use more of their own discretion, which can be flawed and biased, in applying tax laws and rules. But simple taxes prevent this. Relatedly, when taxes are transparent, it will be more obvious if an official does exercise an unfair amount of personal discretion in applying tax rules, whereas untransparent taxes more readily conceal such abuse.

Conclusion

For a long stretch of American history, worrying about sound tax policy was not so urgent, given how small the public sector of the economy was compared to today and how correspondingly faint of an impact taxation had. In 1789, the salary of George Washington alone accounted for around two percent of the federal budget.[43] Even into the first few decades of the 1900s, the government represented just a few percentage points of GDP, except during World War I.[44] But after World War II, permanent change occurred; the public sector is now a colossal economic force. From 1946 to 2007, federal tax receipts averaged about 19.5% of GDP.[45] In 2019, Donald Trump's salary accounted for a microscopic .000009 percent of the federal budget,[46] roughly one part in 11 million. State and local governments have also expanded in the decades since the 1940s, although less dramatically.

It may be resented that this dramatic change has occurred, and may even be justified to devote significant effort to restoring the government to a more reasonable size, to allow for the elimination of unnecessary taxes. But given the necessity of some taxation and the enormous potential benefits of sound tax policy, it is a mistake to seek *lower* taxes to the outright exclusion of *better* taxes. That is because not all taxes are created equal. While some taxes efficiently raise revenue, avoid deterring the natural economic progress of free markets, and avoid violating intuitive notions of justice, others do the opposite, to the detriment of both taxpayers and the government itself. Thus, not only are legislators morally obliged to follow sound principles when designing taxes – namely the principles of neutrality, simplicity, transparency, and predictability – they are obliged to do so by their own interest, as curators of the state.

Yet according to various indicators, *we are moving in the wrong direction*. For one, since the 1970s, all states have become significantly more reliant on the personal income tax,[47] which is both a deterrent of work and investment and a volatile source of revenue. Meanwhile, reliance on the sales tax,[48] which in comparison is less distortionary and less volatile, has moderately decreased. Second, across all states, tax complexity has increased and continues to increase,[49] imposing direct costs on government and even bigger *in*direct costs on taxpayers and the economy.

It is not too late to reverse course. We should act fast to stop ignoring and start prioritizing the issue of tax policy, which in this moment of intense partisanship has great potential for bipartisan cooperation.

End Notes

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