

# A Mild Form of Robbery

The Daily Reckoning Australia

London, England - Melbourne, Australia

Wednesday, 13 May 2009

-----  
**From Dan Denning in Elwood:**

-- This is how we felt after reading over the details for last night's Federal budget.

--In today's Daily Reckoning we take a merciless meat axe to the idea that progressive taxation has anything to do with fairness. Quite the contrary. There could be nothing more unfair than stealing from one man and giving to another based on his "ability to pay." But first, what's this about a budget deficit?

--The fact that the budget is front page news (with extra sections of the newspapers) is a testament to how brainwashed and addicted to government the modern world is. Apparently we're all wards of the State now.

--Should we really take these clowns this seriously? Sadly, we must, because they are not only spending their way into perpetual deficits, they are borrowing (stealing) from the future to do so. Aside from being ham-fisted economic ineptitude, it is also cowardly, immoral, and intellectually offensive. It also affects markets and your investments. More on that in a moment.

--Let's get through this ugliness quickly. Next year's budget (2009-2010) predicts a \$58 billion deficit (5% of GDP) with over a million Aussies out of work (unemployment peaking at 8.5%). The government will spend \$22 billion on 'nation building' projects, including \$8.5 billion on roads, railways, and ports, \$3.5 billion on 'clean energy,' \$2.6 billion on universities, \$3.2 billion on hospitals, and \$4.2 billion as a down payment on the national broadband network. It will sell \$60 billion worth of bonds by next June to pay for all of this.

--The government also says that Australia's net debt will peak at 13% of GDP in 2014, and that compared to 80% in other developed economies that is just awesome. And by then, spending can but cut to the bone because the economy will be ticking along at 4.5% annual growth with jobs returning. By 2015 or 2016- presumably in its third term- the government will return Australia's public finances to surplus, or they will be utterly ruined. Place your bets.

--We reckon that tax takings will be lower, unemployment higher, and economic growth much worse than the budget forecasts. The net debt figure will not stabilise at 14% of GDP. Australia's entitlement mentality (remarkably like America's, and also encouraged by both major political parties) will push spineless politicians down a path of spending increases financed by more and more borrowing and more and more taxes (think carbon, baby).

--It's not too late to stop the debt train and get off. But you'd have to challenge the idea that it is the proper role of government to 'combat' a recession by a 'temporary' slide into deficit spending. There is nothing temporary about it. Deficits are political

animals and once born, they somehow keep growing to monstrous, productivity-destroying sizes.

--Wayne Swan says cutting spending and government services during a recession would be 'crazy.' We say the whole idea of transferring billions of dollars to stimulate consumption is even more insane. If you want the economy to recover, let people keep more of their own money and do what they want with it. Then let the marketplace adjust and quit propping up businesses that can't survive. This would restore the economy to a sustainable path of growth determined by consumer choices and not government intervention in household and corporate finances.

--But hey, that would be a free market working like a free market. And that's just 'crazy.'

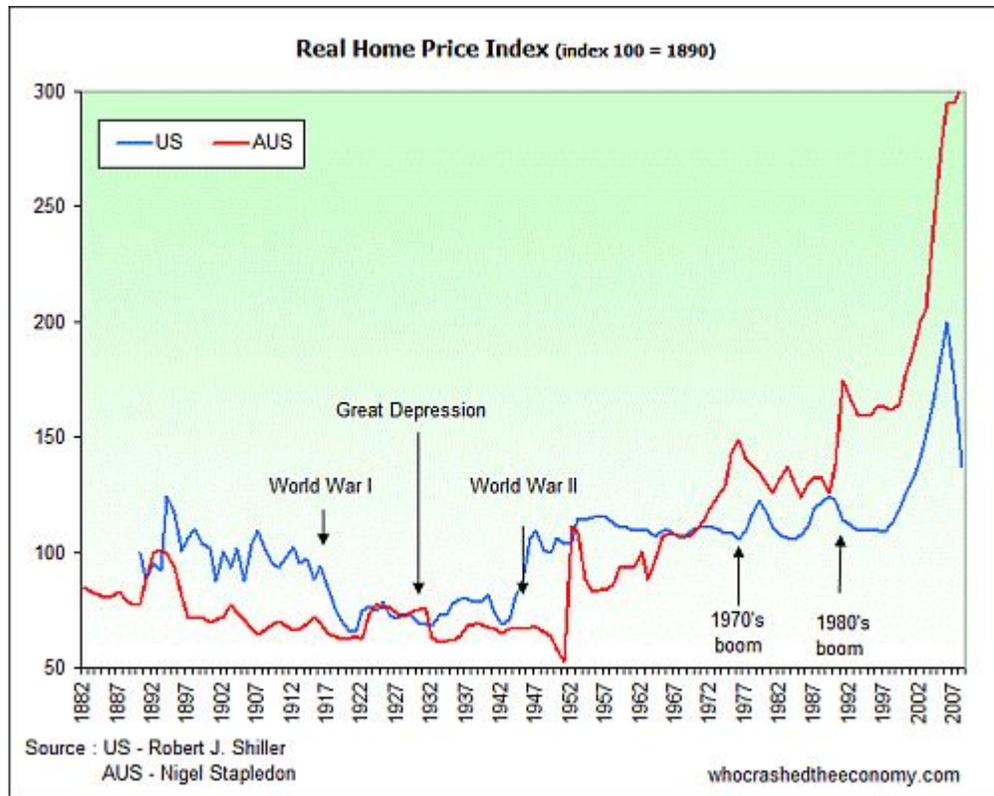
--In other budget news, the \$21,000 first home buyer's grant for newly built properties has been extended past June 30th to September 30th. The \$14,000 grant for existing homes has also been extended to September 30th. Between October 1st and December 31st, the grants will be reduced to \$14,000 and \$10,500 respectively. And next year, they will revert to measly \$7,000 figure for each that John Howard set when he introduced the subsidy to the real estate and building industries in 2000.

--Both the Howard and Rudd governments will rue the day they subsidised higher house prices with government handouts. It's going to impoverish a whole generation of Australians, making them house poor and mortgage-debt rich. Why?

--House prices do fall. They don't double automatically every seven years. If we had a three-bedroom house for every time we heard that in 2004 we'd be incredibly house rich. In the U.S., the National Association of Realtors reported that median U.S. house prices fell 14% in the first quarter of 2009 compared to last year. Existing home sales also fell by 6.8%

--It was the largest quarterly decline in U.S. house prices ever reported. Of the 152 metropolitan areas surveyed, prices fell in 134 of them. The price declines were especially shocking in places where the boom was greatest. In the Cape Coral-Ft. Myers area of Florida, prices fell 59%. In Saginaw, Michigan they fell by 54%. In Akron, Ohio they fell by 48%. And in San Francisco, they fell by 43%.

--There are people who tell you those sorts of declines could never happen in Australia. But those people are morons. A contraction in bank lending, a rise in unemployment, a restriction on immigration, and a rise in interest rates remove all the props that have supported the soaring Aussie property market up until now. If you don't think it can happen here, you're kidding yourself. And if you disagree, send us a note at [dr@dailyreckoning.com.au](mailto:dr@dailyreckoning.com.au) and tell us what you think of the chart below.



Source: [www.whocrashedtheeconomy.com](http://www.whocrashedtheeconomy.com)

--In resource-related news, did you see this number? Chinese urban fixed asset investment was up 30.5% in the first quarter. The National Bureau of Statistics said investment in rail and "other transport" was up 94.2% for the period. Could this stimulus spending account for the surge in Aussie iron ore exports we mentioned earlier this week? Hmmn.

--Lots of mail about why we never write about silver or other rare metals. Oh but we have! We don't usually do it here. But we have done it [Diggers and Drillers](#), where we've also recommended a few ways to invest in it. Jim Rogers, incidentally, likes silver, platinum, and palladium as well.

--Finally, if you are easily offended, you should remember that living a free society does not protect you from the offensive ideas of others. In fact, it's just the opposite. It means that in a free society, you can't shut people up just because you find their ideas challenging, offensive, or because, in the touchy-feely language of the day, they make you feel "uncomfortable."

--That's all a preamble to the idea that societies that use tax law as a way to achieve political or social goals are societies based on envy and resentment. That is, how a nation treats taxes tells you something of the character of a nation.

--So when you hear Wayne Swan-or anyone for that matter-say that the level of taxation in a country should be based on the "ability to pay" be very afraid. These people are not only coming for your money. They're coming for your economic liberty too. Ultimately, that means they're after your political liberty as well.

--Progressive taxation is the idea the larger your disposable income, the larger

percentage of that income you 'should' pay in taxes. Proponents of it-and these days nearly everyone one is-claim it is more 'fair.'" But let's be honest and call things by their right names and say what progressive taxation is really about.

--Even John Stuart Mill, who favoured it, called progressive taxation "a mild form of robbery." That's because progressive taxation about using the tax code to redistribute wealth. It's base on the class-warfare idea that the rich get rich illicitly and conspire to keep the riches of society for themselves. It uses the law (coercion) to correct what some people see as the social and economic injustice meted out by the marketplace.

--But how people treat private property (and wealth IS private property) determines the character of society. A society that promotes the idea of wealth accumulation and that everyone can get rich is one in which standards of living will rise over time. It doesn't mean getting wealthy is the only or even the most important ambition in life. That's a matter of personal choice and values. But it just means that if you want to raise standards of living over time, you should guard economic liberty and not use taxation to punish personal incentives.

--The only fair argument for progressive taxation is that indirect taxes (consumption taxes) hit the poor harder than they hit the rich. This is certainly true for taxes on consumption goods. But it is not true for income taxes, most of which the poor do not pay anyway. A tax on Gucci handbags is less onerous than a tax on a slab of beer. But that doesn't justify the argument that just because you can pay more taxes, you should.

-- When is it ever right for a man to come in to your home and take what's yours simply because he'd decided that someone else needs it more? And how is the government arbitrarily deciding to raise income tax rates on only certain citizens, based on their ability to pay, any different? Yet that's the argument for progressive taxation in the modern world. And most people seem to think it's fair and just.

--Mind you, that doesn't mean that free people can't use legislatures to levy taxes in order to pay for projects they believe should be provided by the State, like roads, bridges and other infrastructure. But there is a difference between that kind of public spending and public spending financed by wealth redistribution to achieve particular social and economic outcomes.

--How did we get to the point in civil society where a democratic majority that does not pay taxes can, through its elected representatives, legally confiscate the wealth of a minority? Friederich Hayek gives the history in, "The Constitution of Liberty."

-- "As is true of many similar measures, progressive taxation has assumed its present importance as a result of having been smuggled in under false pretences. When at the time of the French Revolution and again during the socialist agitation preceding the revolutions of 1848 it was frankly advocated as a means of redistributing incomes, it was decisively rejected. "One ought to execute the author and not the project," was the liberal Turgot's indignant response to some early proposals of this sort.

--"When in the 1830's they came to be more widely advocated, J.R. McCulloch expressed the chief objection in the often quoted statement: 'The moment you abandon the cardinal principle of exacting from all individuals the same proportion of

their income or of their property, you are at sea without a rudder or compass, and there is no amount of injustice and folly you may not commit."

--"In 1848," Hayek continues, "Karl Marx and Freidrich Engels frankly proposed 'a heavy progressive or graduated income tax' as one of the measures by which, after the first stage of the revolution, 'the proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeois, to centralise all instruments of production in the hands of the state.' And these measures they described as 'means of despotic inroads on the right of property, and on the condition of bourgeois production...measures...which appear economically insufficient and untenable but which, in the course of the movement out strip themselves, necessitate further inroads upon the old social order and are unavoidable as a means of entirely revolutionising the mode of production.'"

--If Marx and Engels are to be taken at their word, progressive taxation was never about fairness. It was about putting production "in the hands of the State" and "revolutionising the mode of production." In the world of State-run capitalism, this is what we seem like we're headed towards.

--Now, we can take a step back and ask whether a State-run, union owned Chrysler makes a better car than the shareholder owned management-run Chrysler. It's a fair enough question. We'd argue that government-built and designed cars are going to be about as appealing as a leather boot for breakfast. But that is not really the point.

--The point is that the politicians are lying to you about the goal of progressive taxation. The goal is not to produce more "fairness" or "social justice." It's to place the State at the centre of economic production, so it can regulate and tax with impunity.

--There both a psychological and crassly economic motive to this movement to displace the free market with the State as the organiser of economic life. The smarty pants elitists in both political parties, with their ties to union and corporate money, really believe the world would be better off it was run by benevolent bureaucratic despots. Or maybe using coercive taxation to steal from the rich is simply envy-based class politics, a kind of populist theft conducted with the consent of a hi-jacked system for passing laws.

--Once you go down this road of socking it to the rich instead of reducing spending, you get higher and higher rates of taxation that eventually shrink the economy. Britain adopted the income tax in 1910 and the U.S in 1913. At the time, the top tax rates on income were 8.25% and 7% respectively. Yet within 30 years, thanks to the Great Depression and the World Wars, those rates had risen to 97.5% and 91% respectively.

--"Thus in the space of a single generation," Hayek writes, "what nearly all the supporters of progressive taxation had for half a century asserted could not happen came to pass...All attempts to justify these rates on the basis of capacity to pay was, in consequence, soon abandoned and supporters reverted to the original, but long avoided, justification of the progression as means of bringing about a more just distribution of income."

--How much a man should reasonably pay to the State was no longer an economic question about his 'ability to pay.' It was revealed as the purely political decision it

always was. Or as Hayek says, it's "an attempt to impose on society a pattern of distribution determined by majority decision."

--That's what we meant by the character of society. Do you want to live in a country where over 50% of a man's income can be taken from him simply because the majority votes for it? In that kind of country you want to live in, where you have no real property rights and you don't have equality before the law.

--Upward income mobility is undermined in this kind of society. People don't try to get rich because there's no point in it if your gains are going to be confiscated. The net result of decades of progressive taxation is lower capital formation, more consumption, less production, and ultimately a lower standard of living for everyone.

--In that society, your only means of social and economic advancement is based on your personal connections and political patronage. Not surprisingly, in that society, politicians exercise enormous power. And decisions are not made by businesses who aim to offer consumers better products and services at lower prices. They are made by politicians who aim to cement their electoral position by favouring certain constituencies.

--Progressive taxation has nothing to do with fairness, justice, or equality. It is unfair, unjust, and unequal. But hey, if that's the kind of country you want to live in, or if you're someone who's getting the check instead of writing it, that might not seem like such a bad deal.

--We'd just advise you to prepare for a lifetime of dependency on busy body politicians who become increasingly grasping, moralistic, and intrusive. If you're a free man, you'd better pack your bags and look for some other luckier country.

--This is not to glorify getting rich as the most important thing in this world (or any other world.) It isn't. And there are much more important things in life. Whether you choose to pursue material gain is up to you.

--And just as a government should not use the tax code to punish the rich, it ought to quit tinkering with it and providing so many deductions and rebates that allow anyone with a good accountant to avoid paying large income taxes. A much simpler taxation system based on consumption would be fairer for everyone and it would force the government to finally live within its means.

--Of course that probably won't happen. Ever. But it would be nice to think so. In the meantime, a society that discourages wealth creation and capital formation through so-called progressive taxation is eventually going to make itself a lot poorer and a lot less free.