Tax Revenue Trends and Prospects

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The appearance of another volume of the OECD's annual *Revenue Statistics of OECD Member Countries* provides an opportunity to revisit the trends and prospects for tax revenue in the OECD and its component parts. The OECD (Organisation for Economic Co-operation and Development) is not merely the only body providing this service for the industrialised countries in general; it also seeks to maintain the integrity of the statistics it publishes, by contrast with the Enronesque creative accounting of a number of its member governments. For example, the edition of *Revenue Statistics* published in 2003 contained an article (pages 22 and following) on the treatment of *non-wastable* tax credits (those paid to taxpayers with or without a corresponding tax liability) and the implications of treating such credits as negative taxation.

The OECD's figures show that in 2003 tax revenues rose as a proportion of Gross Domestic Product (GDP) in thirteen out of the countries for which the data were available; they fell in nine countries. This indicated a pause in the modest tax reduction for the OECD as a whole from 37.2 per cent of GDP in 2000 to 36.3 per cent in 2002.

This reduction was itself a minor modification of an opposite long-term trend. Tax levels have risen almost continuously in the OECD as a whole since the OECD first published figures (for 1965). In North America (Canada, Mexico and the United States) the tax-take from GDP increased only a little, from 25.2 per cent in 1965 to 26.1 per cent in 2002. In OECD Europe, by contrast, where the tax-take was already higher in 1965 (26.5 per cent) than it was in North America in 2002, the tax-take rose dramatically to 38.9 per cent, so that during this period of nearly forty years the gap between high-tax Europe and low-tax North America increased nearly tenfold. Four European countries (Belgium, Denmark, Finland and Sweden) had tax ratios of 45 per cent of GDP or more in 2002; 45 per cent of GDP (gross of depreciation) translates into over 50 per cent of national income (net of depreciation), so that in these countries more than half the national product was

being appropriated by the government. By contrast, in Australia, Japan and New Zealand the tax take was 29.1 per cent of GDP in 2002, a little higher than in North America; in Mexico it was only 18.1 per cent.

The causes of this increase in taxation are complex; but the principal reasons have been identified by the Public Choice school, under the leadership of Professors Buchanan and Tullock in the United States. The pressures for increased taxation (at some else's expense) are organised and vocal; the pressures for reduced taxation (even when representing the majority interest) are diffused and weak. For example, Margaret Thatcher had a reputation as a tax-cutter; but the tax-take rose in the United Kingdom from 32.2 per cent of GDP in 1979 to 36.8 per cent in 1990. Harmonisation of value added tax has added a further pressure for increased taxation.

The pre-2004 accession European Union of fifteen member States is the highest-tax bloc in the world. High taxation reduces growth, employment and prosperity. The OECD's *The Sources of Economic Growth in the OECD Countries* (2003) is a recent example of a number of studies arguing that economies grow faster where tax burdens are lighter and taxes do less to distort the economic allocation of resources. Singapore and (more recently) Ireland are interesting illustrations.

Even if there is no effective political opposition to high taxation, there is increasing resistance of other kinds as the tax burden becomes heavier and heavier and the economy works less and less efficiently. But a reliance on this natural barrier to contain taxation, rather than on articulate policies to contain it at a lower level, imposes a heavy cost in terms of growth and prosperity forgone. Even if the European Union can bully smaller new-accession states into raising their rates of corporation tax and other taxes, the EU's writ does not run beyond its borders. Tax competition will continue to flourish elsewhere. Activity in the EU will remain vulnerable, and become increasingly vulnerable, to competition from the low-tax areas of the OECD, to say nothing of India and China.