Misguided Tax Strategy

In the age old children's story of persuasion versus force, the sun and the wind compete to remove the traveler's coat to prove their power. The wind's efforts only make the man wrap his coat more tightly and securely while the sun's heat eventually drives the man to voluntarily remove his coat.
The taxmen of the world should pay heed to this children's parable. Desperately stretched governments across the globe are seeking to raise tax revenue by raising marginal tax rates and closing tax loopholes. This is misguided. Closing loopholes is a good if it simplifies the tax code and makes for a more level playing field, as well as discouraging the over allocation of human intellect to the avoidance of tax.

Where once the friction against labour and capital mobility made tax revenue relatively inelastic the current globalized world where companies operate across continents and countries, capital flows freely in search of safety and returns, and individuals are increasingly mobile in their search for employment and opportunity, tax revenue is more elastic than governments would like to believe.

As a country tries to capture more tax dollars by raising tax rates, while there taxpayers react by attempting to flee or dodge taxation, a trivially obvious strategy is to make it more attractive to pay tax in one's country. This can be done by lowering, not raising, marginal tax rates.

Don't forget that it is almost always possible to legally avoid paying tax by simply walking away from a particularly unfriendly tax regime. The French are already doing this to avoid the hefty 75% top marginal tax rate, fleeing to places like Belgium.

Perhaps a better banner to wave than "its your duty to pay taxes you scum" is the more welcoming one "Sale! Low marginal tax rates over here."