

Dean Baker: Greek Austerity Should Include a Tax Amnesty..

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From the Huffington Post, by Dean Baker:

While Greece has pledged to crack down on tax cheats as part of its bailout commitments, these pledges are less concrete than the cuts scheduled for its civil service and retirement systems. There is a simple way to put the commitment to tax enforcement on an equal footing.

The Greek government can announce a special tax amnesty. During a set period (e.g. 6 months), people will have the opportunity to pay their back taxes from the prior three years with little or no penalty. After the end of this period, the government will pursue new efforts aimed at tracking down tax cheats. This time, it will impose larger fines and/or criminal penalties on those who did not take advantage of the amnesty period.

This amnesty route accomplishes two important goals. First, it can raise an enormous amount of money. If Greece can collect just 20 percent of the unpaid taxes from the last three years it would be a huge step in reducing its deficits. (If taxes are equal to 30 percent of GDP and 30 percent of GDP escaped taxation each year, then the unpaid taxes over the last three years are equal to 27 percent of GDP. If the government can recover 20 percent of this money, it would be equal to 5.4 percent of GDP - the equivalent of more than \$750 billion in the United States.) Also, once a person has paid taxes on a large income, it will be easier to track their income in the future, thereby ensuring greater future compliance with the tax code.

The other important outcome from an amnesty program is that it would indicate whether the country is serious about enforcing the tax code on the wealthy. If rich people believe that the government is genuinely committed to enforcing its tax code, then they will take advantage of the amnesty in large numbers, seeking to avoid more serious penalties in the future. However, if they believe that the government threats are an empty gesture then they will ignore the amnesty, just as they ignored the law originally.

This will tell the Greek people whether they are being taken for a ride by a government anxious to impose austerity on ordinary workers, but unwilling to touch the income of the wealthy. There may be no easy way out for the Greek people from this situation, but they will at least know exactly where they stand.

Time and again we'll have to say this.

Raising tax is more important than cuts.

And unless those tax raising measures are seriously progressive then the chance that society will accept an austerity programme is very limited indeed.

I just hope it doesn't take long for the message to get through.