U.S. Taxes and Government Benefits in an International Context

By Bruce Bartlett


Bruce Bartlett

Bruce Bartlett is a former Treasury deputy assistant secretary for economic policy. He is the author of *The Benefit and the Burden: Tax Reform — Why We Need It and What It Will Take* (2012).

In this article, Bartlett reviews new international data on taxes and healthcare spending as a share of GDP in OECD countries. He suggests that Americans' antipathy to taxes may be a function of the modest benefits they receive from government in contrast to those in high-tax countries.

On November 20 the OECD released its annual report on revenues in its member countries.[1] As can be seen in Table 1, the United States is a low-tax nation; only two of the 34 OECD members have lower taxes as a share of their GDP. The data are for total government revenues, including taxes at the federal, state, and local levels.

To conservatives, those data show not that Americans are undertaxed, but that everyone else is overtaxed. Citizens in other countries don't see it that way, primarily because they get value for their taxes that American taxpayers don't; in particular, they get virtually free healthcare.

Americans believe that having millions of citizens without healthcare coverage and having huge sums taken out of their compensation to pay for employer-provided health insurance is preferable to a government-run system.[2] In large part, that is because they believe that government-run systems are more costly and poorer in quality than privately run systems. But the data do not back that up.

Table 1. Total Tax Revenue, 2010

Country	Percent of GDP
Denmark	47.6
Sweden	45.5
Belgium	43.5
Italy	42.9
Norway	42.9
France	42.9
Finland	42.5
Austria	42.0
Netherlands	38.7
Hungary	37.9
Slovenia	37.5
Luxembourg	37.1
Germany	36.1
Iceland	35.2
United Kingdom	34.9
Czech Republic	34.2
Estonia	34.2
OECD average	33.8
Israel	32.4
Spain	32.3
Poland	31.7
New Zealand	31.5
Portugal	31.3
Canada	31.0
Greece	30.9
Slovakia	28.3
Switzerland	28.1
Ireland	27.6
Japan	27.6
Turkey	25.7
Australia	25.6
Korea	25.1
United States	24.8
Chile	19.6
Mexico	18.8

Source: OECD.

As can be seen in Table 2, Americans pay vastly more for healthcare than any other major country — at least 5 percentage points of GDP more than countries with the next highest healthcare costs.

[1]OECD, *Revenue Statistics, 1965-2011* (2012).

[2]According to the Census Bureau, about 16 percent of the U.S. population lacked health insurance in 2011.

Table 2. Healthcare Spending as a Percent of GDP, 2009

Country	Total	Public	Private
United States	17.4	8.3	9.1
Netherlands	12.0	9.5	1.7
France	11.8	9.2	2.6
Germany	11.6	8.9	2.7
Denmark	11.5	9.8	1.7
Canada	11.4	8.1	3.4
Switzerland	11.4	6.8	4.6
Austria	11.0	8.6	2.5
Belgium	10.9	8.2	2.7
New Zealand	10.3	8.3	2.0
Portugal	10.1	6.5	3.5
Sweden	10.0	8.2	1.9
United Kingdom	9.8	8.2	1.6
Iceland	9.7	7.9	1.7
Greece	9.6	5.8	3.6
Norway	9.6	8.1	1.5
OECD average	9.6	6.9	2.7
Ireland	9.5	7.2	2.4
Italy	9.5	7.4	2.1
Spain	9.5	7.0	2.5
Slovenia	9.3	6.8	2.5
Finland	9.2	6.8	2.3
Slovakia	9.1	6.0	3.1
Australia	8.7	5.9	2.8
Japan	8.5	6.9	1.6
Chile	8.4	4.0	4.4
Czech Republic	8.2	6.9	1.3
Israel	7.9	4.6	3.2
Luxembourg	7.8	6.5	1.2
Hungary	7.4	5.2	2.3
Poland	7.4	5.4	2.0
Estonia	7.0	5.3	1.8
Korea	6.9	4.0	2.9
Mexico	6.4	3.1	3.3
Turkey	6.1	4.4	1.6

Source: OECD.

That is $800 billion more than the next most expensive national healthcare plan costs, approximately equal to the revenues raised by the Social Security payroll tax.

Americans believe that a state-run, single-payer system (like every other major country has) would be too costly. But as one can easily see from the data, we are already paying, through government programs such as Medicare and Medicaid, an amount roughly equal to what every other country pays for national health insurance. In other words, for no more than we already pay to cover just the poor and the elderly, we could cover everyone.

Conservatives believe competition lowers healthcare costs. That is why almost all Republicans support converting Medicare into a voucher system in which beneficiaries must buy private insurance. But as the data show, it is precisely because we pay so much for private healthcare and insurance — over and above what we pay through government — that we have such a large bill for healthcare. If private competition reduces healthcare costs, there is no evidence of it in the data.

We pay out of pocket for private healthcare more than four of 10 OECD countries pay for *total* healthcare costs. And we pay about 6 percent of GDP more for private healthcare than all but a few other OECD countries.

So if our governmental healthcare costs are about the same as everyone else's *and* we pay 6 percent of GDP more for private healthcare costs, it is reasonable to say that that amount is how much foreigners save by having national health insurance and how much more we pay by not having it.

But what about healthcare outcomes? Doesn't the United States have the best healthcare system in the world? The answer depends on how rich you are, how sick you are, and how good your health insurance is. For top-end medical procedures requiring expensive equipment and drugs and highly specialized doctors, the United States is the best. But if you are uninsured and ineligible for Medicaid, we have the worst system.

On average, our healthcare system is not as good as that in many other countries. Numerous studies have shown that the average level of U.S. healthcare and the actual quality of health is no better than in countries that spend a fraction of what we spend on healthcare.[3] A major reason for that is that we simply spend more for the same procedures and drugs and have far higher administrative overhead than countries with single-payer systems.[4] A detailed comparison of the U.S. and U.K. healthcare systems found that Americans have worse health on average despite paying 7.4 percent of GDP more

[3]*See, for example*, Commonwealth Fund, ''Mirror, Mirror on the Wall: How the Performance of the U.S. Health Care System Compares Internationally'' (June 2010); Commonwealth Fund, ''The U.S. Health System in Perspective: A Comparison of Twelve Industrialized Countries'' (July 2011); OECD, *Health at a Glance 2011* (2011).

[4]Francette Koechlin et al., ''Comparing Price Levels of Hospital Services Across Countries: Results of a Pilot Study,'' OECD Health Working Paper No. 53 (July 2010); David M. Cutler and Dan P. Ly, ''The (Paper) Work of Medicine: Understanding International Medical Costs,'' *J. Econ. Persp.* 3 (Spring 2011); Commonwealth Fund, ''Explaining High Health Care Spending in the United States: An International Comparison of Supply, Utilization, Prices, and Quality'' (May 2012); Miriam J. Laugesen and Sherry A. Glied, ''Higher Fees Paid to U.S. Physicians Drive Higher Spending for Physician Services Compared to Other Countries,'' *Health Affairs* 1647 (Sept. 2011); International Federation of Health Plans, ''2011 Comparative Price Report: Medical and Hospital Fees by Country'' (2011).

than the British do.[5] In other words, we could spend 7.4 percent of GDP less on healthcare — approximately what is raised by the individual income tax — and have no worse health on average than they have in the United Kingdom.

In essence, healthcare costs account for much of the difference between the United States and OECD countries with much heavier tax burdens. The excess healthcare spending that Americans pay is like a tax: We pay 7.8 percent of GDP more for healthcare than the OECD average. Add that percentage to our tax-to-GDP ratio and our de facto ratio rises to 32.6 percent of GDP — close to the OECD average. So instead of being a low-tax country, we would be only slightly below average if we had a single-payer healthcare system and paid for it with taxes.

Citizens of other countries get more value from their governments than Americans do in many other ways, thereby justifying a heavier tax burden. For example, no other OECD country except Turkey is as stingy as the United States in paying unemployment compensation. Initial benefits are well below the median for all countries and run out rapidly. The United States is also miserly when it comes to training and other active measures for job creation.[6]

[5]Melissa L. Martinson et al., "Health Across the Life Span in the United States and England," *Am. J. Epidemiology* 858 (2011).

[6]OECD, *Employment Outlook, 2011* 40, 264-273 (2011).

It is commonly asserted among conservatives that those who live in European welfare states live in socialist misery akin to that in the former Soviet Union. The high tax-to-GDP ratios in those countries are proof positive that this is the case as far as they are concerned. But the fact is that welfare states are among the most pleasant places. A recent study by *The Economist* found that 16 countries are better places to be born in than the United States. Virtually all have tax-to-GDP ratios far above that in the United States.[7] Indeed, there is even recent research suggesting that people actually like paying taxes — at least in Germany — because they like what their taxes buy and they are more egalitarian than Americans.[8]

In conclusion, the focus on tax-to-GDP ratios as a measure of well-being is grossly simplistic. We are not necessarily better off for having low taxes, and Europeans are not necessarily worse off because they have high taxes. Much depends on how the taxes are used and what they are designed to accomplish. It may be that U.S. hostility to taxes is more a function of the dismal benefits Americans receive from government than antipathy to taxes per se.

[7]"The Lottery of Life," *The Economist*, Nov. 21, 2012.

[8]Alpaslan Akay et al., "Happy Taxpayers? Income Taxation and Well-Being," Institute for the Study of Labor Discussion Paper No. 6999 (Nov. 2012).