

Marxism / Fascism / Communism vs. Free Market Tax Policies

Policy Comparison

Once you earn money, you have **two voluntary choices** and **one government-mandated obligation**:

1. Spend it
2. Save/Invest it
3. Pay taxes (a non-voluntary government taking)

What is the purpose of government economic policy? In general, government policy either encourages or discourages certain behavior. In practice, government usually discourages activity through taxation and regulation. Since taxation always discourages economic activity to some degree, the practical goal is not to make taxation “good,” but to choose the tax system that does the least economic damage while still funding necessary government functions.

Discourage (get less of it):

- Tax it
- Regulate it

Encourage (get more of it):

No government policy clearly encourages more economic activity than would occur if the government did nothing. The government’s main financial tools are taxation and money creation. Taxing one activity discourages that activity, while printing money weakens the dollar and reduces purchasing power. Both tools can reduce investment, spending, and production—the very things policymakers often claim to encourage. Therefore, the best tax policy is not one that creates economic benefit, but one that funds necessary government functions while doing the least damage to productive behavior. Some policies may still redirect private investment in useful ways. One example is the Trump Account program, which provides a \$1,000 government seed contribution for eligible newborns, while private donors such as Michael and Susan Dell have pledged additional funds. Parents can also contribute over time, allowing children to use the money later for goals such as education, buying a first home, or starting a small business. Michael Dell could likely invest his own money more efficiently than millions of children could individually, but that is not the main purpose of the policy. Its purpose is to teach children and young parents the value of saving and investing. Even if the program does not improve the economy as much as no

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government intervention at all, it may still be worth considering if it helps the next generation understand saving, investing, and free-market ownership.

Here is a summary of the actual plan.

Trump Accounts (Newborn Child Investment Plan) Summary

Trump Accounts are a new type of custodial investment account (essentially a kid-friendly traditional IRA or 530A IRA) designed to help build generational wealth by giving children an early start in the stock market. They were created under the 2025 "One Big Beautiful Bill Act" / Working Families Tax Cuts.

How It Works

- **Eligibility:** Any U.S. child under age 18 with a valid Social Security number can have a Trump Account. Parents, guardians, grandparents, or other authorized adults act as custodians until the child turns 18.
- **Government Seed Money (Pilot Program):**
 - A one-time **\$1,000 deposit** from the U.S. Treasury for children born between **January 1, 2025, and December 31, 2028**.
 - The child must be a U.S. citizen. This is not automatic — an eligible adult must make an election (often via a simple tax form checkbox).
- **Contributions:**
 - Annual limit: Up to **\$5,000 per child** (from parents/family; indexed for inflation).
 - Employers can contribute up to **\$2,500** per year (tax-advantaged for the employer).
 - Additional private/charitable contributions possible (e.g., Michael & Susan Dell Foundation pledged funding for extra \$250 deposits in lower-income areas).
- **Investments:** Funds are invested in **low-cost index funds or ETFs** focused on the S&P 500 or broad U.S. companies. The goal is long-term growth through stock market compounding.
- **Tax Treatment:** Tax-advantaged like an IRA — contributions may grow tax-deferred, with withdrawals potentially subject to rules at maturity (age 18+).

The Practical Tax Policy Question

The practical question is not simply what government should tax or regulate, but what it should tax and regulate least. Since taxation and regulation both discourage economic activity, the goal is to fund essential government functions while doing the least possible damage to production, investment, employment, and affordability.

Returning to the two voluntary choices—spend it or save and invest it—and the one government-mandated obligation to pay taxes, tax policy should be judged by how much damage it causes in the process of collecting revenue. Collecting taxes is not free: the IRS requires staffing and resources, while individuals and businesses spend time and money

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calculating, reducing, or avoiding taxes. That effort could otherwise be used to produce goods and services. Because every dollar collected carries administrative and compliance costs, the goal should be to raise the necessary revenue while leaving as much productive activity intact as possible.

Spending

Spending matters because market activity depends on people buying the goods and services others produce. A high national sales tax would discourage some consumption, so it is not harmless. Its advantage is not that it creates economic benefit, but that it may cause less economic damage than the current system if it is simpler and cheaper to collect. Because a point-of-sale tax requires fewer public- and private-sector resources to administer, it may be possible to collect the same revenue with less total drag on the economy.

Saving and Investing

Saving and investing are essential because they help people move from poverty into the middle class and, in some cases, build real wealth. Most people cannot achieve long-term financial security through wages alone; they also need investment income. Investment benefits the broader economy by providing businesses with capital to start, expand, and create jobs. For that reason, tax policy should avoid discouraging saving and investment whenever possible. Taxing income, business profits, and investment returns requires a large enforcement and compliance system, including the IRS, business accounting, individual tax preparation, audits, and tax-avoidance planning. Those costs consume resources that could otherwise be used for production, hiring, innovation, and growth.

Which Tax Method Causes the Least Damage?

Taxes and the administrative costs of collecting them raise the cost of goods and services sold to the public. Taxing saving, investment, income, and business profits can increase prices before a product ever reaches the consumer because those costs are embedded throughout the economy. By contrast, a national sales tax collected at the point of sale would still discourage some spending, but it may be less damaging if it replaces a more complex income- and profit-based tax system. To collect roughly the same amount of revenue currently collected through the IRS, a national sales tax might need to be around 20%. The key question is whether the reduction in IRS administration, business compliance, accounting, legal work, audits, and tax-avoidance activity would offset enough of that added sales tax to reduce the total economic burden.

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If the savings from eliminating much of the current compliance burden are large enough, the net effect could be less harmful to poor and middle-class households than the current system. Wealthier individuals would still pay more in absolute dollars because they buy more expensive goods and services, especially luxury items. If they respond by spending less and investing more, that shift would be less damaging than taxing investment directly because additional investment can help create companies, jobs, and wealth for others. For example, when entrepreneurs build successful companies, employees and investors can also share in the wealth those companies create.

The next step is to compare Marxist, communist, and fascist tax policies with this free-market national sales tax approach. The following examples show how those competing policy views are commonly expressed.

Marxist and Socialist Tax Policy Claims

The contrast with a free-market national sales tax begins with the Marxist view of property, production, and political control. In *The Communist Manifesto*, Karl Marx and Friedrich Engels wrote that “the theory of the Communists may be summed up in the single sentence: Abolition of private property.” This view treats private ownership of productive assets as the central problem and calls for political power to move away from private capital and toward collective or state-directed control.

Modern socialist tax proposals often follow the same basic direction. They tend to emphasize wealth taxes, higher taxes on corporations and high earners, and public redistribution of accumulated capital. Supporters describe these policies as tools for fairness, equality, and social investment. The free-market objection is that these taxes punish saving, investment, entrepreneurship, and production—the activities that create jobs, goods, services, and long-term wealth. From this perspective, such policies do not create prosperity; they discourage the private activity that produces it.

Historically, full Marxist systems and lighter socialist approaches have not shown a record of expanding the middle class or making the poor wealthier than market-based systems. When governments move economic power away from private ownership and voluntary exchange and toward state control, the result has been weaker incentives, lower productivity, and fewer opportunities for broad wealth creation. Free-market systems are not perfect because humans are not perfect, but the historical record shows that private ownership, entrepreneurship, competition, and investment have done more to raise living

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standards for poor and middle-class households than policies built around state control and redistribution.

Net Affordability Effect of a National Sales Tax

The net affordability effect begins with one visible increase and one major offsetting reduction. The visible increase is the new national sales tax of about **20%** at the point of sale. The offsetting reduction is the **Replacement Tax Effect**: eliminating the existing federal income, corporate, payroll, and related taxes that are already embedded in the cost of goods and services. In this streamlined, efficient model that reduces government market intrusion, removes those embedded taxes and thereby reduces costs by about **20%**, which roughly offsets the new **20%** sales tax before any additional savings are counted.

Collection-Cost Efficiency Savings

- **Current system collection/compliance burden:** about **10 cents per dollar** of revenue collected.
- **National sales tax collection cost:** about **2.5 cents per dollar** collected.
- **Net collection-cost efficiency savings:** about **7.5 cents per dollar** of revenue collected.
- **Affordability effect:** $20\% \times 7.5\% = 1.5\%$ improved affordability.

This efficiency gain means the full **20%** sales tax rate may not be needed to raise the same net revenue. Because the collection-cost savings equal **7.5% of the 20% tax rate**, the estimated rate reduction is **1.5 percentage points**. Under this assumption, the required sales tax rate could fall from **20% to about 18.5%** while still collecting the target net revenue.

Net affordability effect from collection-cost efficiency: approximately **1.5% improved affordability**. This reflects only the lower government collection cost and does not yet include private-sector compliance savings or the additional economic activity created when savings are redirected into productive private-sector use.

This is a conservative step in the calculation. At this point, the switch is approximately revenue-neutral after the Replacement Tax Effect, with an additional **1.5% affordability improvement** from collection-cost efficiency alone.

Private Sector Compliance Cost Savings

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Joel Slemrod of the University of Michigan is one of the leading academic researchers on tax-compliance costs. His work, including research with Marsha Blumenthal, Nikki Sorum, and others, provides a peer-reviewed basis for estimating the private-sector burden created by the income-tax system.

Key Finding from Slemrod's Research:

- **Private-sector compliance costs** include time, accounting, legal work, tax software, record-keeping, planning, and other expenses required to comply with the income-tax system.
- Slemrod's research estimates that these costs can equal roughly **10 cents for every dollar of income-tax revenue collected**, depending on the study and methodology.
- This estimate is important because it measures the real economic burden carried by individuals and businesses, not just the government's administrative cost.

How This Translates to a National Sales Tax

- The current income-tax system extracts revenue while imposing an additional hidden private-sector compliance burden, estimated here at about **10 cents per dollar of tax revenue collected**.
- A national sales tax would not eliminate every compliance cost, but it would reduce much of the income-tax-related burden because collection occurs at the point of sale rather than through income, deductions, depreciation, credits, payroll rules, corporate profits, and investment gains.
- Applied to the paper's **20%** national sales tax model, a **10%** private-sector compliance savings equals approximately a **2% affordability improvement: $20\% \times 10\% = 2\%$** .

This **10%** private-sector compliance estimate is conservative and academically grounded. When paired with lower government collection costs under a national sales tax, it strengthens the affordability case because it identifies a second major category of savings beyond the Replacement Tax Effect.

In practical terms, for every **\$1** the government collects through income or corporate taxes, individuals and businesses may spend roughly another **10 cents** on compliance activities such as accounting, software, legal work, record-keeping, tax planning, and audits. Applied to a **20%** national sales tax model, that equals approximately a **2% affordability improvement**.

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Private-Sector Alternative Use of Cost Savings

The final affordability improvement comes from the alternative use of resources no longer consumed by tax-compliance overhead. Under the current system, hundreds of billions of dollars each year are spent on activities that do not directly produce goods or services. Under a simplified national sales tax system, businesses and individuals could redirect some of those resources into more productive uses.

- Hiring additional workers
- Investing in new equipment and technology
- Expanding production capacity
- Funding research and development
- Lowering prices to gain market share
- Increasing wages or benefits for employees

This redirection can create a productive cycle: more investment leads to more production, greater supply of goods and services, lower price pressure, higher real wages, and improved affordability for working families.

Even if only part of these savings flows through to consumers, the overall effect would be higher economic output and better living standards than under the current system. Instead of consuming resources simply to navigate tax complexity, a simplified sales tax would free capital for genuine wealth creation.

Quick Breakdown

Compliance cost reduction is the direct savings: the money and time no longer spent on accountants, lawyers, software, record-keeping, audits, and other tax-compliance activities.

Alternative use, or dynamic effect, is the second-order benefit: what happens when those freed-up resources are redirected into hiring, equipment, research and development, expansion, production, and other productive private-sector uses.

These two effects are closely related, but they are not exactly the same. If the full compliance savings are counted as a direct price reduction and then a large dynamic multiplier is added on top, the total effect could be overstated.

For that reason, the direct compliance savings should be treated as the primary price or affordability improvement, while the alternative-use effect should be treated as an

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additional but conservative positive effect. In this paper, the alternative-use effect is estimated more cautiously as an additional **1% to 2%** affordability improvement rather than another full direct compliance-cost reduction.

Net Affordability Summary

- **Collection-Cost Efficiency Savings:** 7.5% of the 20% national sales tax, or **1.5% improved affordability**.
- **Private-Sector Compliance Cost Savings:** 10% of the 20% national sales tax model, or **2% improved affordability**.
- **Private-Sector Alternative Use of Savings:** money no longer spent on tax compliance can move directly into business savings, investment, production, hiring, and expansion, producing an estimated additional **1% to 2% affordability improvement**.

Taken together, these three savings equal approximately **4.5% to 5.5% in additional affordability improvement each year:**

$$1.5\% + 2\% + 1\% \text{ to } 2\% = 4.5\% \text{ to } 5.5\%$$

This does not mean taxation creates wealth. It means that replacing a more complex tax system with a streamlined, efficient model that reduces government market intrusion could leave more resources in productive private-sector use each year.

Peer-Reviewed and Policy Studies on Tax Compliance Overhead

The following studies support the compliance-cost assumptions used in the Net Affordability Summary.

Tax Compliance Overhead refers to the total private-sector cost of calculating, reporting, minimizing, and avoiding taxes under the current income- and profit-based tax system. These costs include employee time, accounting and legal services, tax software, record-keeping systems, audit preparation, and business decisions made primarily for tax reasons rather than productive reasons.

Peer-reviewed research by Joel Slemrod and coauthors found that income-tax compliance imposes substantial private costs on individuals and businesses. Slemrod and Nikki Sorum estimated that individual income-tax compliance cost taxpayers between \$17 billion and \$27 billion in 1982, equal to roughly 5% to 7% of revenue raised by federal and state income taxes. Slemrod and Marsha Blumenthal later found that large corporations incurred

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significant annual compliance costs for federal and state corporate income taxes, with complexity increasing after major tax-law changes.

More recent policy studies estimate a much larger total burden. The Mercatus Center estimated hidden tax-compliance costs between \$215 billion and \$987 billion annually, including accounting costs, economic distortions, lobbying, and lost growth. The National Taxpayers Union Foundation estimated that taxpayers would spend about 7.1 billion hours and \$464 billion complying with the tax code for Tax Year 2024. The Tax Foundation similarly estimated that IRS tax-compliance costs reached roughly \$546 billion annually, including lost productivity and out-of-pocket costs.

Although these estimates vary by methodology, they point in the same direction: the current tax system consumes enormous resources before any tax revenue is even counted. Those resources are not free. They are embedded in the prices consumers pay and in the opportunities businesses forgo. A simpler point-of-sale tax would not eliminate all tax administration costs, but it could reduce much of the private-sector overhead associated with income, profit, deduction, depreciation, and avoidance calculations.

Conclusion

Our current tax system gives each taxpayer two voluntary economic choices—spend money or save and invest it—and one mandatory compliance order: pay taxes, keep detailed records, and comply with the IRS. That system places the government deep inside the financial lives of individuals and businesses through reporting requirements, audits, penalties, tax planning, and record-keeping.

A national sales tax would not make taxation “good,” because all taxation discourages economic activity. But it would make the tax more visible, simpler to collect, and more directly connected to voluntary spending decisions. People would have more control over how much tax they pay because the tax would be based on how much they choose to spend, not how much they earn, save, invest, or produce.

The purpose of tax policy should be to raise necessary revenue while doing the least possible damage to production, investment, employment, and affordability. The current income- and profit-based system raises revenue, but it also imposes large government collection costs and private-sector compliance costs that reduce productive activity and are ultimately reflected in consumer prices.

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By contrast, a national sales tax collected at the point of sale could reduce much of the overhead associated with income, corporate, payroll, deduction, depreciation, and investment-tax rules. Under the assumptions in this paper, the Replacement Tax Effect roughly offsets the visible 20% national sales tax before additional savings are counted. Collection-cost efficiency, private-sector compliance savings, and the conservative alternative-use effect together suggest a possible 4.5% to 5.5% annual affordability improvement.

This does not mean taxation creates wealth. It means that replacing a complex, intrusive tax system with a streamlined, efficient model that reduces government market intrusion could leave more resources in productive private-sector use each year. More private-sector resources can support production, hiring, innovation, investment, lower price pressure, higher real wages, and better long-term living standards.

The policy choice is therefore not whether taxation is good, but which tax structure causes the least economic harm while still funding necessary government functions. Marxist and socialist approaches tend to target accumulated capital, private ownership, and the means of production. A free-market national sales tax approach instead protects saving, investment, production, voluntary exchange, and broad-based wealth creation. Readers should judge competing tax policies not by slogans or promises, but by their real-world consequences for work, investment, affordability, and the middle class.