The American Spectator

Marching Toward Taxmageddon

Tax Freedom Day is today -- next year it could come a month later.

By Doug Bandow on 4.17.12

Americans effectively stop paying for government on Tax Freedom Day. Directly, that is. Regulation acts as a huge de facto tax. And many other liberties have been lost to government over the years.

However, taxes are the easiest way to measure the price of government. This year Tax Freedom Day falls on April 17. That is four days later than last year, primarily "due to higher federal income and corporate tax collections," explains the Tax Foundation. As a result, "Americans will work 107 days into the year from January 1 to April 17, to earn enough money to pay this year's combined 29.2 percent federal, state, and local tax bill."

The payroll tax cut -- approved for this year only in January -- has helped hold back TFD. Otherwise we would be working another three days for government.

Tax collections represent a sizable amount by any measure. The total is even more in comparison with other expenditures. Americans devote less time working to buy what almost everyone considers to be necessities -- clothing, food, and housing -- than to pay taxes. And the value that we get for the former is far greater than most of what we get from the decisions of irresponsible and spendthrift public officials.

A bit more than a month, 32 days, goes for the income tax. Federal "social insurance" levies -- that is, Social Security and Medicare taxes -- account for 23 days. State and local sales and excise taxes consume 12 days. So do state and local property taxes. The federal corporate income tax fills nine days. State and local income taxes come in at eight days. Other state and local exactions consume four days. Other federal taxes hit three days.

Federal sales and excise levies run two days. State and local corporate taxes consume a day. It's an imposing list.

It is hard for most Americans to imagine, but government in America once was small. In 1900 TFD fell on January 22. Americans paid just 5.9 percent of their incomes to government at all levels.

Economic and international interventions did much to change that, as Robert Higgs documented in *Crisis and Leviathan*. In 1917 the U.S. foolishly entered World War I and TFD was January 24. The following year it was February 8. Government continued to grow. TFD rolled into March during the Great Depression as Washington spent wildly but unsuccessfully in an attempt to boost the economy. In 1943, with the world in flames, TFD first broke into April. It dropped back into March in 1950 before rising inexorably as the Cold War heated up.

The Depression and World War II most dramatically expanded the national government, pushing federal spending beyond that of states and localities. In 1932 Americans worked 46 days to pay their state and local taxes, but only ten days to satisfy Uncle Sam. On the eve of entering World War II in 1940 Americans labored 33 days for each. From then on the national government has taxed more.

Alas, observes the Tax Foundation, after World War II: "The federal tax burden never returned to pre-war levels. The 1950s and 1960s also saw a rise in state-local tax burdens and a boost in economic growth following the 1964 Kennedy/Johnson tax cut. Vietnam War-era tax increases and the 'stagflation' of the 1970s pushed personal incomes into higher tax brackets, and by 1981, Tax Freedom Day arrived on April 24."

Although President Ronald Reagan cut taxes, economic growth increased revenues. When he left office in 1989 TFD was April 22. Notes the Tax Foundation, "That year, federal income tax revenues as a share of the economy were higher than they had been in nearly all years prior, and higher than all but one year (1952) of the 1940s, 1950s, and early 1960s, when the top rate exceeded 90 percent."

Although TFD receded further this year, it still doesn't look too bad compared to recent peaks. The record was May 1 in 2000, before the Bush tax cuts. Despite everything that has happened in the last few years, TFD this year is just a day later than in 2003, after the Bush tax cuts took effect.

But this could change next year. The Heritage Foundation's Curtis S. Dubay warns of the risk that "an enormous, unprecedented tax increase will fall on American taxpayers starting on January 1, 2013." The Bush tax cuts, which helped roll back the steadily escalating burden during the Clinton years, expire at the end of the year. So does the latest extension of the payroll tax cut and the alternative minimum tax "patch." Include some Obama administration tax hikes and Americans face a "Taxmageddon" of nearly $500 billion.

Dubay urges the president and Congress to "start working together now to prevent this massive tax increase rather than waiting until the end of the year." The reason for acting sooner rather than later is obvious -- reduce the opportunity for political gamesmanship and "assure families, businesses, and investors that their taxes will not rise sharply as the economy is still staggering to its feet."

Tax hikes of this magnitude obviously would dramatically push back TFD (and damage economic growth prospects). But the real TFD would be effectively unchanged.

UNCLE SAM NO LONGER pays for many of his programs. One reason that TFD came so late in 2000 is that the federal government was running a *surplus*. That's almost unimaginable today, when the Congressional Budget Office projects never-ending red ink. Even the CBO's most unrealistically optimistic estimate suggests that the deficit will only dip to about $200 billion in 2018 before starting back up without limit.

Indeed, with an annual budget of $3.6 trillion Washington has been borrowing a third of its funds. At the same time, as if by magic, the federal government, through the Federal Reserve, has been buying 60 percent of its own debt, issued by the Treasury Department. Washington has been partying wildly since 2008, with the cascade of bailouts and porculous outlays that have been tossed down the proverbial rat-hole.

Unfortunately, things are only going to get worse. Fannie Mae and Freddie Mac continue to lose money, the Federal Housing Administration is over-extended, and the Pension Benefit Guaranty Corporation needs its own bail-out. Uncle Sam has more than $100 trillion in unfunded Social Security and Medicare liabilities. America's dubious wars and nation-building campaigns have turned into unfunded liabilities, with a trillion dollars or more of spending to come to simply provide long-term care for those grievously wounded in combat.

Moreover, if Obamacare survives the Supreme Court, federal health care spending will explode. Warns Charles Blahous of the Mercatus Institute, through 2021 the "reform" measure is "expected to add at least $240 billion and as much as $530 billion to federal deficits while increasing federal spending by more than $1.15 trillion over the same period and by increasing amounts thereafter." And this estimate presumes that Obamacare contains medical spending, while its perverse incentives actually will do the opposite.

The Congressional Budget Office "baseline" budget -- which assumes everything will go right from a fiscal standpoint -- figures an additional $2.9 trillion in red ink from 2013 to 2022. If President Barack Obama's budget were passed, the red tide would rise to $6.4 trillion. And if policy runs aground, as so often happens, the CBO's "alternative fiscal scenario" predicts another $10.7 trillion in borrowing over the coming decade.

CBO concluded simply: "The federal budget is on an unsustainable path, because federal debt will continue to grow much faster than the economy over the long-run." The government's good times might continue for a little longer. But soon the bill will come due. And when it does Americans can bid farewell to today's relatively early TFD.

THE FEDERAL DEFICIT is expected to exceed $1 trillion this year. If Americans were taxed to cover that amount the TFD would jump nearly a month, to May 14. That would set a new postwar record by nearly two weeks. The combined TFD would lag merely one week behind the comparable total in 1945, when the U.S. was engaged in a devastating world war.

Of course, TFD is a national average. Some states do better. Residents of Tennessee finish paying their taxes on March 31. TFD in Louisiana and Mississippi is a day later. South Carolina and South Dakota come in at April 3 and 4, respectively.

Unfortunately, other states are worse. Connecticut continues to hold worst in the nation dishonors, falling in at May 5. That's two and a half weeks after the national average. New Jersey and New York sit at May 1. Washington comes in at April 24. Illinois, Maryland, and Wyoming come at April 23.

America faces a bipartisan crisis. Democrats are natural big spenders. Republicans like to pose as fiscal hawks, but their record in office is far different. The Bush administration and Republican Congress were wastrels par excellence. They laid the debt foundation on which President Barak Obama has been so cheerfully building. And political courage is not much in evidence among most GOP leaders these days, despite their rhetorical posturing.

Tax Freedom Day's retreat in the face of increased government spending should act as a spur to action. Unless Americans take charge of federal finances, far worse is in store. Who knows? Maybe some day we will never stop working for government.