

Get with the program, people: Embrace higher tax rates

By Steve Stanek – January 2nd, 2013

All that fiscal cliff turmoil for this: a \$620 billion tax increase and \$330 billion of new spending over the next 10 years, according to the Congressional Budget Office.

Don't believe for one second only greedy rich bastards are going to pay for this. Most of us will pay for it.

Apparently the problem has not been too much government spending and borrowing. It's been too little spending and borrowing and not enough taxing. That's the message federal lawmakers have sent the nation.

A two-percentage-point reduction in the Social Security tax ends under the deal, forcing almost everyone with a job to pay more — \$1,635 a year more, on average, for families earning from \$50,000 to \$200,000. It's a \$1,000 hit for a family that earns \$50,000 a year.

And that's without counting the Obamacare taxes that come into effect this year, such as the tax on medical devices and the payroll tax surcharge on incomes above \$200,000 for individuals and \$250,000 for families.

Joel Naroff of Naroff Economic Advisors told the Associated Press, "It's a huge hit. It hits people whether they're making \$10,000 or they're making \$2 million."

For individuals earning more than \$400,000 and families earning more than \$450,000 a year, taxes on income, capital gains, and dividends all go up. Taxes on estates of more than \$5 million at a person's time of death also go up. That's money that won't be invested in the economy.

The extra \$330 billion in spending results from extending unemployment benefits, a "doc fix" patch to prevent cuts to Medicare, and the extension of agriculture subsidies.

Meanwhile, the Treasury Department reports the \$16.4 trillion national debt ceiling will be hit next month and already would have been hit but for some accounting gimmicks to keep the government below the limit. The national debt stood at \$5.6 trillion (a little over one-third its current size) in 2001 when George W. Bush became president. It was \$10.4 trillion when Bush left office, meaning it has grown nearly 60 percent during the Obama presidency.

The deal appears to do little or nothing to cut government spending, limit debt, or reform the tax code. Instead, it actually complicates a tax code that is already incomprehensible and soul-crushing.

It is astonishing how much focus was put on taxes throughout the fiscal cliff talks. The problem has never been taxes. It's been spending.

The federal government spent nearly \$3.6 trillion in 2012. That's virtually double the amount it spent in 2001. Michael Tanner of the Cato Institute recently pointed out that if spending had increased at the rate of inflation plus population growth since 2000, last year's spending would have been less than \$2.7 trillion. The deficit would have been \$241 billion instead of \$1.1 trillion.

Many factors can affect an economy, and correlation is not necessarily causation. But there's no disputing this: During the eight years of the Clinton administration, when we had a much better economy than we've had since George W. Bush took office, tax rates were a bit higher but spending was much lower. Spending rose 32 percent under Clinton and 83 percent under Bush.

"The most significant problem with the Bush tax cuts was that they were not matched with spending cuts," write Matthew Mitchell and Andrea Castillo of the Mercatus Center in their recent paper, *What Went Wrong with the Bush Tax Cuts*. "In fact, Washington went on a historic spending binge: From 2001 to 2009, federal spending leapt from 18.2 to 25.2 percent of GDP. This was the largest such increase in any eight-year period since World War II."

If government spending boosts an economy, it should have soared under Bush. Instead it tanked. And it hasn't recovered despite the continued spending.

But let's suppose our lawmakers are right and the emphasis really should be on raising taxes. If that's the case, they shouldn't be so half-hearted about it. Maybe it's long past time Americans faced the true costs of government. No more receiving government services now to be paid for by other people years from now. If lawmakers believe their largesse is good for us, they should make us pay for it in its entirety.

The budget deficit last year was \$1.1 trillion. I say raise taxes \$1.1 trillion now. Immediately. On everyone.

In this way, Americans would see the true costs of the government services our spendthrift lawmakers dole out. Maybe, faced with that truth, the public will start demanding fewer government services and punish lawmakers who keep doling them out.

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