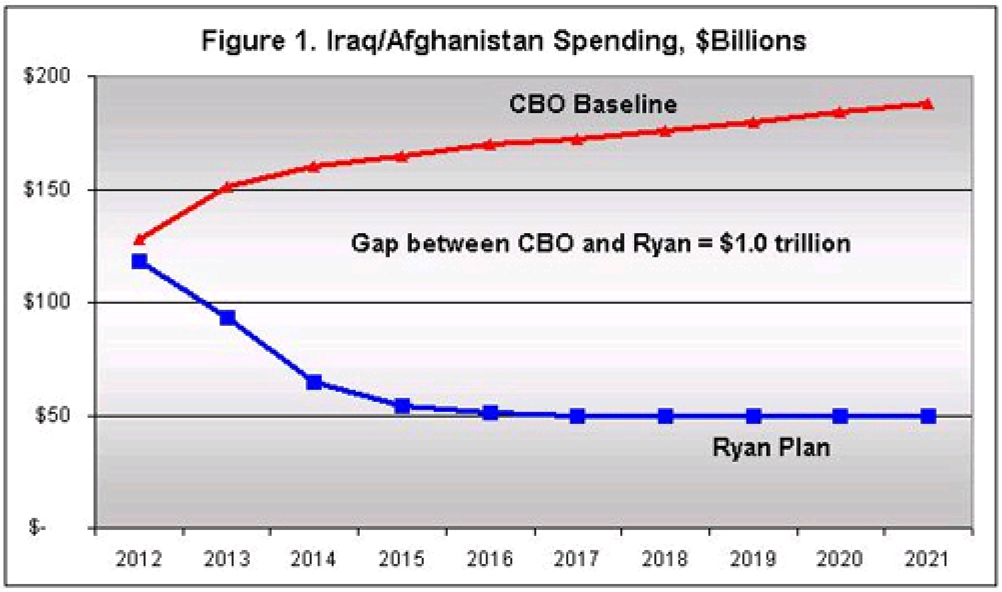
Phony Cuts/Real Taxes

Posted By Roger Kimball On July 27, 2011 @ 7:38 am In Uncategorized | 35 Comments

One of the many depressing things about the "debt ceiling" circus now playing in Washington is the patent asymmetry between the two sides of the debate: the cuts vs. the taxes (aka "revenue enhancements" and other mendacious equivocations designed to conceal an unpleasant reality).

When it comes to cuts, virtual reality rules. When it comes to taxes, it is cash on the barrel, none of this "I'll gladly pay you Tuesday for a hamburger today."

Let's start with the "cuts" our masters are proposing. Here's a real-life example: "We'll cut a trillion dollars — a *trillion dollars*, ladies and gentleman! — by the simple expedient of saving on the cost of the Iraq and Afghanistan wars over the next ten years. How's that for fiscal responsibility?" That's what the putative cutters in Congress said. Now let's wheel out a chart showing what the Congressional Budget Office projected the wars would cost, adjusted for inflation, vs. the "savings" we might realize by ceasing to pour our national treasure into those hell holes for another decade. Chris Edwards at the Cato Institute has the handy graphic:



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The problem, as Mr. Edwards observes, is that "nobody expects war spending to continue rising like that. Rather, spending is supposed to fall in coming years as troops are withdrawn." That blue line is not a cut in any normal sense of the word, it is simply a more realistic estimate of what we are likely to be spending. Writing in June of this year, Mr. Edwards admitted that he was "getting very suspicious that party leaders will deliver phony 'cuts,' not actual terminations in programs or reductions in entitlements."

His suspicions, as these last weeks have demonstrated beyond cavil, were well founded: it's all phony cuts. Looking for "actual terminations in programs or reductions in entitlements"? Forget about it, *mon brave*. There aren't any.

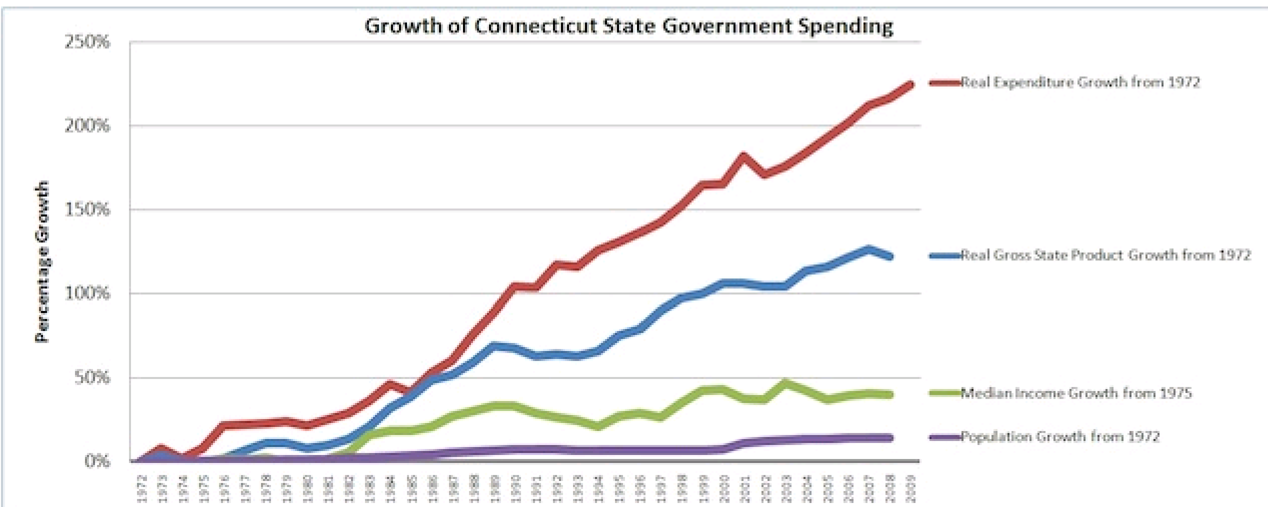
When it comes to taxes, however, there is none of this smoke and mirrors. Sure, our masters in Washington have submitted the word "taxes" to the office of circumlocution, and so they have an entire lexicon of obfuscating words to deploy in addition to the dread T word. But where the proposed "cuts" are merely virtual cuts, the new taxes are real: the $100 you were going to get yesterday has suddenly been whittled down to — what? $90, $85?

Who knows what clever new ways to fleece the serfs of this mighty nation our masters in Washington are even now devising. Doubtless there will be some candid increases in the marginal rates of the income tax. But let's not forget the many other strategies of "revenue enhancement" that the mismangers in Washington have at their disposal, from inflation to a variety of stealth- and semi-stealth taxes, e.g., the 3.8 percent federal sales tax on a wide range of investment income, including home sales above $500,000. Not everyone is aware of that provision, which was snuck into the ObamaCare legislation and which goes into effect in 2013. "We have to pass the bill," said Nancy Pelosi, "so that you can find out what is in it." Surprise! Not "trick or treat," just "trick."

Barack Obama has been in office for about two and a half years. In that time, he has managed to increase federal spending by about 30 percent. In his administration, the federal deficit is running at a mind-boggling 40 percent of the federal budget (we have a deficit of about $1.5 *trillion*, a budget of about $3.8 trillion). That means that of every dollar the government spends, it has to borrow 40 cents. This, I suppose, is what Barack Obama means by a "balanced approach." (Speaker of the House John Boehner offered a helpful translation of that phrase: by "balanced approach," he said, Barack Obama meant "We [the Congress] spend more, you [the saps footing the bill] pay more.")

Most attention is focused on the follies in Washington. But many people will feel the pinch first in their home states. For example, I live in Connecticut and the duly elected spendthrifts who now wield the power of the state here have instituted a whole raft of new fees and taxes, including raising the sales tax and (retroactive to January) the state income tax. And what are they doing with that extra dough? Paying for their past profligacy and mismanagement.

The indispensable Yankee Institute for Public Policy has put together this helpful chart charting Connecticut's population and state expenditures.



* Real Expenditures based on State of Connecticut "General Fund Operating Surplus/Deficit" and expressed in fiscal years.
* Gross state product data from the Federal Bureau of Economic Analysis.
* Median income and population data from Census Bureau.
* Numbers are adjusted for inflation to 2008 dollars using the Consumer Price Index

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The state's population, you'll see, has been stable (but, I predict, not for long: soon you will see people leaving in droves for more affordable places). But state expenses have dramatically risen. But it really gets going in 1991 after then-Governor Lowell Weicker instituted a "temporary" state income tax to address a "crisis" (i.e, the results of the state's mismanagment). Well, that was twenty years ago and that "temporary" expedient, like all government money-grabbing schemes I know anything about, has turned out to be a permanent fixture of Connecticut life.

The awful truth is that this country has been grossly mismanaged for decades. The Great Recession has exposed the mismanagement, casting a cruel light upon our impending insolvency. One might have hoped that in this national emergency, the politicians we elected to serve us would shelve the posturing and insist on doing the right thing instead of the politically palatable thing. If we are to emerge intact from this crisis, we need two things: First, we need to cut spending, drastically, programmatically. I'm not talking about the basket of illusory cuts Congress has so far offered. I mean real cuts. The culture of entitlement must take a long vacation.

Second, we need to stimulate economic growth. We do that not by destroying thousands of cars and bailing out two-thirds of the American auto industry (like many Americans, I have sworn never, ever to buy a car made by Chrsyler or Government Motors); you don't do it with fake stimulus programs in which the government spends money its doesn't have to reward unions and other special interests which in turn contribute to the politicians who have generously taken money out of other peoples' pockets and lavished it on them. What you do is cut taxes and make the regulatory environment business-friendly. You don't penalize success: you reward it, knowing that it builds on itself. You do everything you can to make it easy for business to start and thrive. You recognize that government's role is to adjudicate disputes, provide a mechanism to assure contracts are honored and honest dealing prevails. Government should not, for example, be in the business of telling you what sort of light bulb to use, who to hire and promote, how much to pay your workers. The market is a genius at sorting out all that.

Phony cuts but real taxes: that is the bad deal our masters in government have given us. Isn't it time to rebel?

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