

Lesson 60 – Tax Policy Issues

When more of the people's sustenance is exacted through the form of taxation than is necessary to meet the just obligations of government and expenses of its economical administration, such exaction becomes ruthless extortion and a violation of the fundamental principles of free government.

– President Grover Cleveland, 1886

It is generally assumed that a government will collect taxes and provide services. In this lesson, we will take a second look at what might be the best taxing and spending policies for a government to pursue.

What Should the Government Do?

It seems like the faint echo of a distant day and time to suggest that the Federal government was intended to be limited in its scope and powers and that it cannot do whatever Congress and the President might want to do. A few facts give us some historical perspective:

- A program of “internal improvements” (Federal-funded roads and canals) was hotly debated in the early nineteenth century on whether it was an appropriate and constitutional undertaking by the Federal government.
- The establishment of a national bank was repeatedly a matter of political conflict during the same period. Its opponents (including President Andrew Jackson) believed that such a bank was unconstitutional since it was not specifically mentioned in the Constitution.
- President Grover Cleveland vetoed an appropriation of \$10,000 in 1887 to help farmers in Texas who were suffering from a drought. In his veto message he said,

I can find no warrant for such an appropriation in the Constitution; and I do not believe that the power and duty of the General Government ought to be extended to the relief of individual suffering which is in no manner properly related to the public service or benefit. A prevalent tendency to disregard the limited mission of this power and duty should, I think, be steadily resisted, to the end that the lesson should be constantly enforced that, though the people support the Government, the Government should not support the people.



President Grover Cleveland



*Grover Cleveland's Birthplace in
Caldwell, New Jersey*

- Cleveland believed that private charities should and would assist the struggling farmers. He was right. The farmers received ten times more financial assistance from private sources than they would have received through this Federal appropriation. Perhaps the charitable impulse has been squelched today because many people believe the government will take care of everyone.
- When the Great Depression hit in 1929, the Federal government under Herbert Hoover provided assistance to states but not to individuals because Republicans did not believe such individual assistance to be an appropriate function of the Federal government.

Today, few question whether a government should undertake the programs that it does. With this outlook, it is no wonder that our taxes are getting higher and higher.

What Is a Taxable Event?

Here again, it seems that government generally will try to tax anything it is not specifically prevented from taxing (for example, states are not permitted to tax Federal lands, and export tariffs are specifically prohibited in the Constitution). The earning of income by private citizens is accepted as a taxable event. The purchase of most retail items is seen as a taxable event. The inheritance of a large estate is seen as a taxable event. The increase in capital worth (as in stocks and, until recently, the rise in property value of a home) is seen as a taxable event.

Does Lowering Taxes Help the Economy?

When President John Kennedy proposed cutting taxes to stimulate the economy, he justified the proposal by saying that a rising tide lifts all boats. Cutting taxes would seem to hurt the government's ability to generate revenue, but in fact cutting taxes has been shown to stimulate the economy so much that the government actually receives more revenue. This was demonstrated with the tax cuts enacted under Presidents Reagan and George W. Bush.

The answer to economic problems and personal difficulties is not always more government spending. Many times more government spending means more government bureaucrats but little help to those in need. What will help is less government spending, which enables people to save, invest, and spend more of their own money as they see fit.



President John Kennedy

What Should Be the Goal of Tax Policy?

The government's collection of taxes should be undertaken to provide revenue for government to render necessary services: military defense, police and fire protection, and so



forth. However, governments often use taxing and spending policies to regulate the economy and to accomplish other goals. For instance, high import tariffs do not just raise revenue. They provide protection for domestic companies against cheaper imported goods. This appears to be a good thing, but the result can be that domestic companies might not be motivated to produce goods economically or of high quality if they have no fear of foreign competition.

Tax policies should not attempt to reward or punish certain segments of the economy. The tax code is huge and complex because so many special provisions have been enacted that reward certain businesses and those with a certain level of income. What those businesses and individuals don't pay, the average American (who doesn't have a strong lobby in Congress or a luxury resort to offer Congressmen) winds up paying. Sometimes attempts to punish by

taxes backfire. As part of the tax increases enacted under President Clinton, a luxury tax was added to the price of yachts. This would seem a fair enough tax to the average American, but the added tax severely hurt the yacht-building industry and caused layoffs that wound up costing the government because it had to pay unemployment benefits.

Sometimes states, counties, and cities offer tax breaks to big companies in an effort to attract them to a particular location. The county government might offer to waive the business property tax for ten years, for instance. In return for this, the county hopes that having the business or industry there will create jobs and generate revenue in other ways. Places that are competing for businesses to come can get into bidding wars to see how attractive they can make the package offered to a prospective business. Some large companies have been known to demand such concessions and tax abatements before they will consider building in a locality. Of course, smaller businesses and local property owners do not get offers of tax cuts. In fact, they have to pay more for the services that the big company uses. Some companies make payments in lieu of taxes, and the Federal government makes payments if a large amount of county land is owned by the Federal government (such as a military base) and thus cannot be taxed by the local authority.



Workers Operating Machinery in the Bureau of Printing and Engraving, Washington, D.C., late 1800s

When the policy is complicated and is used to accomplish purposes other than generating needed revenue, it can adversely affect many people.

How Big Should Government Spending (and Deficits) Be?

Indebtedness can be a heavy weight for a family to bear. It can come to dominate the thinking of the family and make a calm, peaceful life almost impossible. The debt of a home mortgage can be less of a problem, since most homes increase in value. However, buying too much house, being saddled with a huge mortgage payment, or having a long-term mortgage that requires paying the purchase price two or three times in interest can be paralyzing debts.

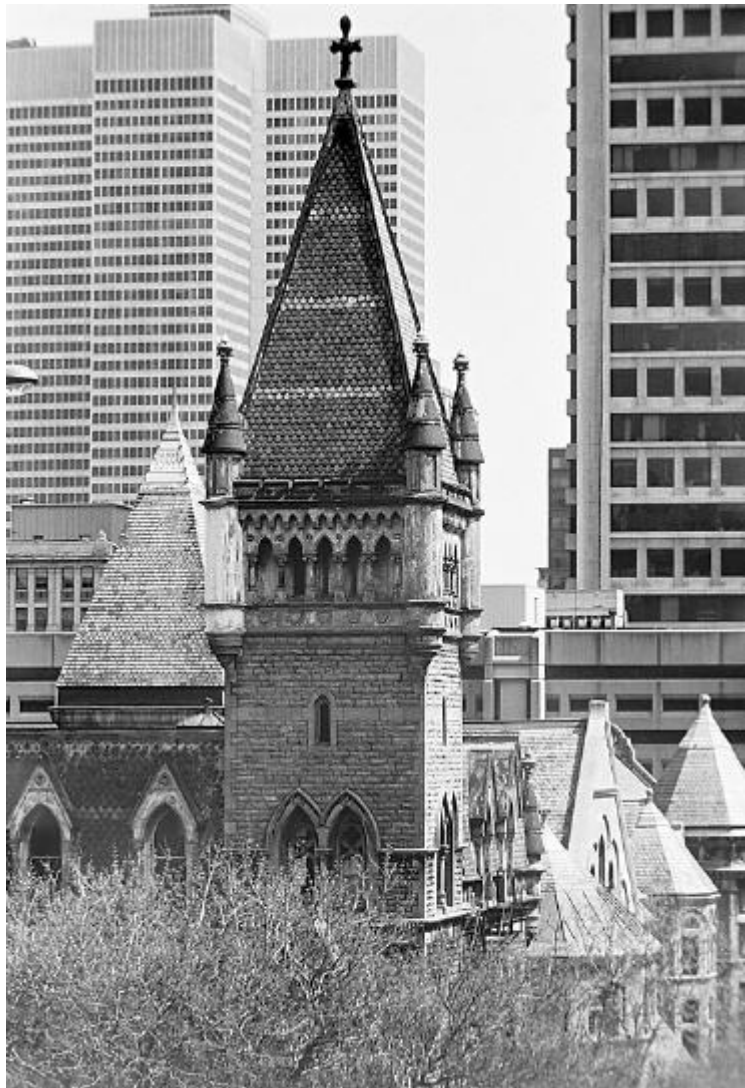
Yearly budget deficits and a constantly increasing debt would be indicators of fiscal irresponsibility for a family. It is no different with the

government. We all should be willing to get by with less so that the government can regain fiscal soundness. Our government should not consistently spend more than it takes in. This means that hard choices have to be made and not every government program might be able to continue, but government action is not the only way to get things done. Some other countries, such as Ireland, New Zealand, and Slovakia, have found that cutting government spending greatly helps the economy.

On the other hand, Federal spending is about one-fifth of the gross domestic economy, and the deficit is an even smaller percentage. Government spending in the U.S. is a much smaller part of the economy than is the case in European countries. The situation in the U.S. is not as dire as it could be, but the trend is not favorable.

Should Churches Be Tax-Exempt?

The exemption that churches receive from paying most taxes has been an element of the freedom of religion that we enjoy in this country. As John Marshall pointed out, the power to tax involves the power to destroy. However, the tax-exemption of churches has allowed certain individuals to build huge financial empires from which they derive enormous personal gain and on which they pay little or no taxes. Some religious groups own valuable pieces of property and pay no taxes on them. To have churches pay their fair share of property taxes and sales taxes might help spread the burden of taxation more evenly among the populace, but admittedly it might also cause a strain on smaller congregations. As difficult as having to pay taxes might be for churches, it is worth noting that the church has grown most in times and places where it was not privileged but in fact was persecuted.



These questions invite us to look again at the underlying assumptions of our system of taxing and spending. To change the direction that government has been going for decades would mean a major change in our thinking, our expectations of government, and our personal initiative and responsibility. However, if we want the direction of government to change, the change has to start somewhere. If we keep doing what we are doing now, we will continue getting what we already have.

*He who is faithful in a very little thing
is faithful also in much;
and he who is unrighteous in a very little thing
is unrighteous also in much.*

*Therefore if you have not been faithful in the use of
unrighteous wealth, who will entrust the true riches to you?*

Luke 16:10-11

