How To Improve Life by Raising Taxes

By David Osborne

For the past year state and local governments have shed 35,000 employees a month, helping stall the recovery. Yet few of their leaders have considered the obvious alternative: tax increases.

They should think again. Republicans have sold the public a bill of goods with their propaganda that taxes always and everywhere kill economic growth.

In 1993, President Clinton raised taxes. Republicans predicted doom, but instead we enjoyed the longest expansion in our history, in which Americans of every income level experienced significant income growth.

Other countries thrive with tax rates much higher than ours. Taxation consumed roughly 27 percent of our Gross Domestic Product (GDP) in 2009, according to the Organization for Economic Cooperation and Development. In Sweden, it consumed 47 percent; in Finland, Norway, and Austria, 42-43 percent. Yet per capita GDP is higher in Norway than in the U.S., and Austria and Sweden are not far behind us. On the World Economic Forum's Global Competitiveness Index, Sweden and Finland outrank us.

Some tax increases would improve both our economy and our quality of life. States and cities have raised cigarette taxes high enough to cut deeply into smoking rates, for instance, protecting citizens' health as well as future public spending on health care.

We could do the same for alcohol and medicinal marijuana. We could even target sugar and junk food, to roll back the epidemic of obesity and diabetes that threatens so many Americans.

If we extended the sales tax to Internet purchases, we would generate $10-20 billion in annual tax revenue while defending local merchants against the Amazon-led onslaught that has forced so many into bankruptcy.

If we raised the gas tax, we could repair our crumbling infrastructure and invest in public transit. With one stroke, this would lessen the threat of climate change, decrease traffic congestion, give us cleaner air, and create jobs.

If we were really smart, we would tax all carbon emissions, to stave off global warming. Both consumption and investment would immediately shift to cleaner forms of energy, such as solar and wind, and those industries would start hiring in a big way.

Clinton and Gore proposed a carbon tax in 1993, but the U.S. Senate has too many members from oil, gas, and coal states. And there's the rub: the U.S. Senate is not a very democratic body.

Oil producing states such as North Dakota, with 676, 000 people, get two senators, just like New York, which has 19 million people. To make matters worse, the Senate operates under rules that allow 40 members to block any bill by filibustering.

States with significant oil, gas, or coal production have at least 30 senators. Add them to Republicans who will never vote for a tax increase and you have an impossible equation.

But we don't have to wait for federal action; states can pass all these taxes. It is state and local governments that are laying people off, after all, not the feds.

One thing Congress might actually have the guts to do is reduce federal tax incentives that favor investment in oil, housing, and other areas. These giveaways now top $1 trillion a year, almost as much as we collect in federal income taxes. More than half the money goes to the wealthiest five percent among us.

Economists of all stripes agree that subsidizing activities through the tax code lowers economic growth, because it shifts money from the most productive investments to those with the best tax breaks.

In 1986 President Reagan partnered with Democrats, led by Senator Bill Bradley, to eliminate many federal tax breaks. But industry lobbyists have since worked their magic, and the number of tax expenditures has almost doubled since then, to 300.

The twelve member congressional committee tasked with finding $1.2 trillion in deficit reduction by November 23 is discussing these giveaways. Unfortunately, 95 percent of Republicans in Congress have signed a pledge authored by Grover Norquist, the anti-tax ayatollah, to "oppose any net reduction or elimination of deductions and credits, unless matched dollar for dollar by further reducing tax rates."

But again, why wait for Washington? State tax codes are riddled with exemptions. By whittling them down, states can preserve public jobs, protect public pensions, and increase the productivity of their economies.

The politics are less daunting than one might think. On different polls this year, some 70 percent have supported increasing federal income taxes on families making more than $250,000 a year. Similar numbers want deficit-reduction efforts to include both tax increases and spending cuts.

If state and local leaders explain exactly what any new revenue will be used for—to save ten thousand teachers' jobs, for instance, or to repair 100 bridges before they collapse—experience and polling data suggest the public will be receptive.

All it takes is a little courage.

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