

Civilization's Price

The simple truth: We need higher, and smarter, taxes

By Robert S. McIntyre

If John Kerry is elected this fall, his number one task will be to deal with the huge budget mess George W. Bush's tax cuts have created. Which begs the question: how can President Kerry build public support for the higher taxes our country desperately needs?

So far, Kerry hasn't shown any inclination to talk seriously about taxes. Yes, he has proposed rolling back some of the Bush tax cuts for people making more than \$200,000 a year. But he wants to devote all the revenue that raises to new tax cuts, mainly for the middle class. In fact, the Tax Policy Center calculates that Kerry's overall tax plan would *reduce* revenues by \$617 billion over the next decade.

To be sure, Kerry's tax cuts are only half as big as the \$1.2 trillion in additional tax cuts that Bush is proposing—and much better targeted. Yet with federal income taxes down to their lowest level as a share of the economy since before World War II, you'd hope Kerry would do a lot better than Bush-Lite. He can and should.

Kerry's pollsters have undoubtedly told him that voters enthusiastically favor public services, but generally prefer not to have to pay for them. True enough (duh). But that's just a statement about human nature, not a prescription for rational public policy.

The truth is that most people are willing to pay their fair share for public services. But nobody wants to be a chump. So Kerry has to show the public that everyone else is chipping in, too. Since that's demonstrably not the case now, Kerry needs to propose some major reforms to make his case.

Much better tax enforcement. Under Republican leadership, the IRS has been denied both the authority and the means to crack down on tax cheating. As a result, hundreds of billions of dollars a year in taxes legally owed go uncollected, and the biggest tax evaders are wealthy individuals and corporations. Kerry should propose a major expansion in the IRS audit budget, expanded reporting requirements, tougher penalties, and so forth. That way honest taxpayers—still the vast majority of us—can have some confidence we're not being ripped off by the unscrupulous. If Republicans want to complain that many tax cheats are "small businesses," well, bring it on.

Fewer loopholes. Republicans may have a leg up on

Democrats when it comes to zeal for tax loopholes, but both parties are guilty of using the tax code to promote a vast array of favored activities. One result is that taxpayers with similar incomes can be treated wildly differently depending on how they make their money or how they spend it. Another problem is that the IRS's scarce resources are diverted away from collecting taxes, into running what amount to tax-based spending programs—and by necessity, running them poorly. Unfortunately, Kerry's own platform calls for \$229 billion in new tax breaks for health care and college tuition. These may be noble goals, but they shouldn't be larded onto our already over-burdened tax code. Instead, a simpler tax code with far fewer tax breaks should be high on Kerry's tax agenda—and would help restore much-needed respect for the tax system. Kerry could start by addressing a problem that his vice-presidential nominee John Edwards complained about frequently during the primaries: our extremely low taxes on investment income versus wages.

Tax the rich—but we all have to help pay for our government. To his credit, Kerry proposes to scale back Bush's tax cuts for very well-off people. Making the tax code more progressive could help boost taxpayer morale, and is also good for our pocketbooks, since progressive taxes are always less of a burden on middle- and low-income taxpayers than equal-revenue alternatives. But Kerry's expensive proposal to cut taxes on the middle class is unaffordable and unnecessary. Remember how Bill Clinton mostly staved off Republican tax-cut efforts in his second term by insisting we needed to use the budget surpluses to "save Social Security first"? Kerry should make a similar case against Bush—who in his current budget calls for slashing domestic appropriations by a quarter as a share of the economy by fiscal 2009.

Poll after poll finds that most voters say they are willing to forgo tax cuts to avoid enormous reductions in education, transportation, law enforcement and other popular programs. Of course, there's no guarantee that they'll feel the same way in the voting booth. But if John Kerry can't make the case for reversing Bush's bankrupt tax and budget policies before the election, we can only hope he plans to do so starting in 2005.

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