BuffaloNews.com

Election year poses challenges on U.S. tax policy

By **James R. Harrigan and Antony Davies**

Published: August 30, 2012, 2:00 AM

The scheduled expiration of the Bush tax cuts at the height of election season is a case study in the politically obvious and the economically dangerous. As members of both parties involve themselves in a high-stakes game of chicken, on the edge of the so-called "fiscal cliff" no less, American citizens are caught in the middle. As always.

Taxation has one legitimate purpose: raising revenue. The government requires revenue to conduct its legitimate functions, and no one denies this. Problems emerge when the government abuses the tax code to benefit one group at the expense of another. The current fight over the Bush tax cuts is a perfect example. President Obama is determined not to extend a tax "benefit" to the rich. Congressional Republicans, on the other hand, want largely to continue the tax structure as it stands.

Now that they are about to expire, we find that the Bush tax cuts did not solely benefit the rich. According to the Urban-Brookings Tax Policy Center, the tax cuts have been benefiting 96 percent of the middle-class to the tune of $2,000 per household per year. And it doesn't stop there. The payroll tax cut is also set to expire. That will cost the average household an additional $1,200.

The fiscal cliff is not about tax cuts for the wealthy. Not by a long shot.

Try telling that to Obama, who in his most recent State of the Union claimed, "Right now, we're poised to spend nearly $1 trillion more on what was supposed to be a temporary tax break for the wealthiest 2 percent of Americans."

Only a politician could consider people keeping what they earn a "spending increase." Logic like this denies Americans the stability to plan for their futures. And it was logic like this that transformed the United States Tax Code into the incomprehensible monster it is.

The solution is simple. Alter the tax code so that everyone can understand it and easily comply. This is easier than it sounds, but it requires an admission that no politician is inclined to make. Government can set tax rates; government cannot set tax revenue. For the past half-century, the federal government's tax revenue has been a relatively constant 18 percent of GDP, regardless of whether tax rates were high or low and regardless of what politicians were taxing. If government is destined to take an 18 percent slice of the economic pie, why not do it through the simplest policy possible: a flat tax that raises 18 percent of GDP?

Oh, and what about the argument that we can't afford the tax cuts? Now that the recession is over, let's return federal spending back to its pre-stimulus level. Coincidentally, that will save enough money to pay for the Bush and payroll tax cuts combined.