Don't tax — Cut!

ANTONY DAVIES & JAMES R. HARRIGAN | Saturday, Dec. 17, 2016, 9:00 p.m.

What do the personal income tax, inheritance tax, realty transfer tax, sales tax, hotel occupancy tax, cigarette tax, other tobacco products taxes, corporation tax, non-corporate business tax, motor fuel tax, malt beverage tax, liquor tax, vehicle rental tax and small games of chance tax all have in common?

The average Pennsylvanian is subject to every one of them.

And here comes the commonwealth again to reach into your pockets, now with the so-called “Netflix tax.” This, of course, includes more than Netflix. It covers everything from downloaded music to smartphone apps to online video content. Such as from Netflix. And Hulu. And HBO.

Get ready for all of it to be 6 percent more expensive.

Politicians tell us they have no choice because they need to close the state's massive budget deficit. But they won't admit that it takes two to tango: It takes both tax revenues and government spending to make a deficit. And somehow, when budget deficits loom, politicians pay far more attention to boosting tax revenue than to cutting bloated spending.

It's time for Pennsylvania's politicians to face a grim reality. Taxing more things won't solve the problem. Since Pennsylvania first enacted an income tax in 1971, state tax revenues have averaged 5.5 percent (plus or minus half a percent) of the state's economy. When economic times were good or bad, when tax rates were lower and later when they were higher, one thing remained constant: State tax revenue remained pegged at about 5.5 percent of state GDP.

The fact is that politicians can't raise taxes; they can only raise tax rates. Taxes are what happens when tax rates combine with people's economic activity. Raise those rates and you encourage people to cut back on their economic activities. Drop those rates and you encourage people to expand their economic activities. For Pennsylvania, the net result is that, no matter what new-fangled taxes politicians dream up, the state government gets a fixed 5.5 percent slice of the state's economic pie.

There are two lessons from this historical fact. The first is that, in the short term, balancing the budget must mean cutting spending. While the Legislature doesn't control the state tax revenue, it does control state spending. The second is that, in the long term, if politicians want more tax revenue they need to craft tax policy not with the intent of raising money, but with the intent of growing the economy.

If the state government is destined to collect a constant 5.5 percent of the economy, then the key to raising more tax revenue lies in growing the economy as quickly as possible. Nothing else will do the trick.

Lowering tax rates encourages economic activity. Simplifying the tax code discourages waste. Politicians hate these things of course — a lot more than they hate deficits, because with them there is no way to hide what they do. The truth is we only need one tax — an income tax or a sales tax would do just fine.

A single tax brings simplicity, transparency and the same revenue as the giant list of taxes we have now. But then the people would know what they pay every year, and the politicians certainly don't want that.

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