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ECONOMIC VIEW

Reshaping the Debate on Raising Taxes

By ROBERT H. FRANK

POWERFUL anti-tax rhetoric has made legislators at every level of government afraid to talk publicly about a need to raise taxes. The constituents of the few who dare speak are typically bombarded with attack ads that go something like this: “It’s your money, but your esteemed senator thinks the bureaucrats in Washington know how to spend it more wisely than you do.”

Because of our inability to talk sensibly about taxes, the United States has been sliding toward second-class status in the world economy. Our national debt, for example, has increased by more than $3 trillion since 2002. Once the world's largest creditor nation, we are now its largest debtor. We are currently borrowing more than $800 billion a year from the Chinese, Japanese, South Koreans and others — loans that will have to be repaid in full with interest. These imbalances have sent the dollar plummeting.

The situation is set to become worse. On the current trajectory, the national debt will rise an additional $5 trillion over the next decade. The retirement of baby boomers will require additional revenue to cover growing deficits in the Social Security and Medicare programs.

And though an emerging consensus in favor of universal health coverage may mean better care for more people for less money over all, such coverage will also require higher taxes. Additional revenue is also needed to make up for the deferred maintenance that has placed many of our roads and bridges in dangerous disrepair.

Anti-tax crusaders say that these problems can be solved by just cutting wasteful spending. To be sure, Congress could help keep spending in check by adopting a strict pay-as-you-go standard for all new legislation. But most existing government programs have powerful constituencies, and programs that lack such strong defenders are not always the most suitable candidates for cuts. Salient examples from recent experience include scientific research, infrastructure maintenance and security investments like cargo-container inspection and lockdown of loosely guarded nuclear materials in the former Soviet Union.

In short, realistic proposals for solving our budget problems must include higher revenue. But unless political leaders can develop strategies for dealing with the powerful anti-tax rhetoric that has sunk similar proposals in the past, the impasse will continue.

One strategy would be to inform voters that the “it’s your money” argument is incoherent. Taken to its logical conclusion, it implies that it is illegitimate for the government to collect taxes. But if that were true, there could be no government and no army, in which case, the United States would have long ago been conquered by another country. Then we’d be paying compulsory taxes to that country’s government.

In the real world, governments not only maintain armies, they also provide a variety of public goods and services that would be impractical for private citizens to provide for themselves. Every government, including our own, has always levied taxes of some sort to pay for these goods and services.

So it’s strongly in our interest to talk about what services the government should provide and how to raise the revenue to pay for them. Politicians need to explain this clearly to their constituents. The argument is simple and would fit easily into a 30-second campaign spot.

Anti-tax crusaders sometimes brand proposals to make the tax structure more progressive as class warfare based on envy. This tactic has also been rhetorically effective, but, like the “it’s your money” slogan, it stifles an important conversation to everyone’s detriment.

Progressive taxation is not about envy. Top earners have captured the big share of all income and wealth gains during the last three decades. They’re where the money is. If we’re to pay for public services they and others want, they must carry a disproportionate share of the tax burden.

Anti-tax crusaders often bristle at taxes whose aim is not just to raise revenue but also to alter behavior. They label such efforts “social engineering.” But as even Adam Smith recognized, behaviors that are attractive to individuals are often harmful to society as a whole.

Activities that give off greenhouse gases, for example, are misleadingly attractive to individuals because their costs fall largely on others. Carbon taxes are the remedy of choice. When individual and social incentives diverge sharply, tax remedies of this sort are the least intrusive way to restore balance.

Nowhere have the carefully constructed slogans of anti-tax crusaders been more been powerful than in the case of the estate tax, which they like to call the “death tax.” Although voters in the bottom fifth of the income distribution are more likely to be struck by lightning than to leave an estate large enough to set off this tax, two-thirds of them support its repeal. This is bamboozlement of the highest order.

FORTUNATELY, there is clear evidence that reframing the discussion often has a big impact on the way voters think about tax policy. In the spring of 2005, for example, I asked the Survey Research Institute at Cornell University to conduct two telephone surveys to investigate public attitudes about the Bush administration’s proposal to eliminate the estate tax.

In the first survey, respondents were simply asked whether they favored the proposal. Almost 75 percent said they did. In the second, respondents were first told that lost revenue from eliminating the estate tax would necessitate some combination of raising other taxes, borrowing more money from abroad and further cutbacks in government services. This time, almost 80 percent of respondents favored keeping the estate tax.

Given the effectiveness of anti-tax rhetoric, presidential candidates are understandably reluctant to tell voters what must be done to put the fiscal house in order. But voters are smarter than many cynics think, and they may be especially receptive to fresh points of view at this stage in the political cycle. The anti-tax rhetoric of recent decades is at the root of many of our current problems. Candidates with the courage to confront it head on may not only contribute to our economic recovery, but may also win additional votes.

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