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Cornhusker Economics

Agricultural Economics Department

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September 2003

## Some Musings on Taxation

Bruce B. Johnson

*University of Nebraska-Lincoln*

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# Cornhusker Economics

## Cooperative Extension

Institute of Agriculture & Natural Resources  
Department of Agricultural Economics  
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### Some Musings on Taxation

I may be wrong, but it seems to me we are witnessing a profound shift in American politics and that only seems to be accelerating these days. The shift is in regard to government fiscal policy - particularly the revenue/taxation side. From the federal level down through the state levels to local levels, we see a “fiscal crisis” of varying degrees of severity. There is a lot of political rhetoric. Yet neither political party seems to be engaging in any serious debate (probably because they are too busy finger-pointing and passing the buck). The *leaning down* of government and “*cutting out the fat*” has been the focus for so long that little is left to cut without cutting into the basic quality and quantity of governmental services delivered. As a result, we are experiencing deterioration of public services at every level of government - all under the political guise of “fiscal responsibility”.

Granted, taxation has never been received with enthusiasm by those who are taxed. But where there is fairness and equity, taxation has historically been seen as the necessary cost of sound government. Taxes are payment for the goods and services which representative government provides its citizens.

Now however, it seems that much of the general public perception has moved taxation into the status of evil - something to be avoided at all costs. Regardless of what the reason may be, any tax increase is considered by the electorate as something negative. So political candidates aspiring to an elected position try to do everything possible to distance themselves from even the mere possibility of enacting tax increases under their watch. The Fall 2003 California governor recall election is only the latest episode in such posturing, propelled by emotionalism over taxation that is whipped to a religious fervor. Unfortunately, virtually every other state government, including Nebraska, and thousands of local governments are in a similar crisis mode, with the fiscal policy process at an impasse.

Market Report	Yr Ago	4 Wks Ago	9/5/03
<b><u>Livestock and Products,</u></b>			
<b><u>Average Prices for Week Ending</u></b>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$63.26	\$80.94	\$86.51
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	*	*	105.32
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	87.33	100.49	108.68
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	98.12	126.64	138.28
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	24.00	40.75	39.50
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	14.50	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	82.67	104.77	99.41
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	68.50	*	89.75
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<b><u>Crops,</u></b>			
<b><u>Cash Truck Prices for Date Shown</u></b>			
Wheat, No. 1, H.W. Omaha, bu	4.84	3.56	3.50
Corn, No. 2, Yellow Omaha, bu	2.70	2.02	2.31
Soybeans, No. 1, Yellow Omaha, bu	5.41	5.24	5.80
Grain Sorghum, No. 2, Yellow Kansas City, cwt	5.05	3.88	4.29
Oats, No. 2, Heavy Minneapolis, MN, bu	2.00	1.56	1.60
<b><u>Hay,</u></b>			
<b><u>First Day of Week Pile Prices</u></b>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	142.50	117.50	115.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	92.50	61.25	58.75
Prairie, Sm. Square, Good Northeast Nebraska, ton	120.00	*	*
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I believe it's time to think "outside the box" regarding tax policy, since the "box" is basically empty. In doing so, I would suggest we muse about some different paths that we as individuals, businesses, government and society could take. I pose these as a list of *what ifs* relating to both the public attitude and the public policy regarding taxation. Consider these not so much as ready answers to our government fiscal dilemmas as they are a starting point for constructive public thought and debate.

**What If:** You and I saw the taxes we pay as our appropriate duty to pay for the goods of society we enjoy? Or better yet, what if we saw them as our *privilege* as citizens of a free and democratic society?

**What If:** The overwhelming share of citizens and our elected officials were genuinely engaged in understanding the fiscal aspects of government beyond the "how am I affected?" question, and would actively enter into meaningful public debate regarding the fiscal realities and options?

**What If:** Private corporations saw the paying of their *fair share* of taxes at the local, state and federal level as part of being good corporate citizens?

**What If:** Nebraska and other states rallied together to say "enough" to the "no-win" big corporate tax concession game, refusing to succumb to corporate threats of relocation or choosing one state over another on the basis of their tax forgiveness packages? As it stands now, states find themselves facing what economists call the "prisoners dilemma", in which negotiation pits one prisoner (or in this case, state) against another. Of course, the simple solution to this dilemma is for states to mutually agree beforehand to not be bullied in to major tax concessions.

**What If:** Tax policy reemphasized the fundamental tax cannons of *ability to pay* and *benefits received*? *Ability to pay* would be reflected in making both federal and state income tax appropriately progressive instead of marginalizing progressiveness (currently Nebraska's individual income tax rate is basically the same for thousands of Nebraska tax payers as it is for the state's richest citizen, Warren Buffet). *Benefits received* would tie taxation much closer to the goods and services rendered by the unit of government - for example, as already being done by a fuel tax on gasoline for the road infrastructure used by drivers. A key change here would be to shift much more of the tax burden for public education to the income tax and away from property tax; since income generated more closely parallels the benefits received from public education that does ownership of real estate.

**What If:** The passing on of duties and responsibilities to lower units of government (federal to state, state to local) be done only with the accompanying fiscal resources needed to carry out those transferred mandates?

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business and consumer practices that impose obvious spillover costs on society (environmental, health, etc.). In other words, shift some of the tax burden to societal "bads" and reduce the taxation of societal "goods" (income earnings, savings, etc.) accordingly. "Sin taxes" on alcohol and tobacco have been around for a long time; but there are many other areas where taxes could appropriately reflect spillover costs which the greater society must now bear. In fact, this could be a win-win situation in that the tax also discourages actions with undesirable societal spillovers.

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**What If:** Fiscal policy at all levels of government took on a *longer-term* perspective than the time span associated with re-election by self-serving political aspirations of elected officials? In other words, what if citizens and their representatives at all levels of government would dare to consider the longer term societal needs and interests and, in the context of that vision, make choices that will truly better our society for generations to come?

**What If:** \_\_\_\_\_ ? (you fill in the blank).

**What If:** We could experience just one or two of these changes from the list above, since it may be unlikely that we could reach broad consensus to all or even a majority of them? Wouldn't even just a few make a positive difference to fiscal policy?

A useless exercise you say? Perhaps so, but given the situations we face at virtually all levels of our democratic society, we do need to do something - and quickly. The current platitudes of simply "cut taxes" and "reduce government" have run their useful course. Now it's time for all of us to deal with the bigger fiscal issues in a responsible and comprehensive way. The time is now for fundamental tax reform.

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