

Understanding the trouble with taxes

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By Mark W. Anderson

In the coming months we will hear much about taxes as Maine citizens debate a proposed Taxpayer Bill of Rights. Central to this debate will be claims and counter claims about Maine's tax burden. Are we or are we not the most taxed people in America?

Debating this question will miss a key point. The idea that taxes are too high or too low is simply the wrong question. Our taxes only reflect our values, what types of consumption we value over other types. Taxes that are too high for some societies may be too low for others.

We can talk objectively about whether a particular tax, like a sales tax or income tax, is efficient or not. By calling a tax efficient we would mean that it is easy and inexpensive to collect and hard to cheat on by those who wanted to avoid paying it.

We can talk about whether a particular tax is fair or not. Often in the United States a fair tax is considered to be one based on a person's ability to pay. A tax is called "progressive" if those more able to pay do so at a higher rate. It is "regressive" if those less able to pay actually pay more.

There are, of course, ways other than ability to pay to define fairness. Some consider a tax fair if it does not penalize those who work hard or if it does not reward those who do not work hard.

But efficiency and fairness have nothing to do with whether taxes overall are too high or too low.

Taxes serve different civic purposes. First, they may be used to encourage behaviors society finds desirable or discourage those we find undesirable. For example, we tax cigarette sales at higher rates than we tax other goods in hopes of discouraging smoking. We provide tax credits for the purchase of fuel-efficient hybrid vehicles to encourage their sales.

Second, taxes are used to finance the provision of public goods and services.

All of us consume both private goods and public goods. Private goods are the things we consume individually - homes, cars, food, clothing, vacations. They are the parts of our lives as individuals or families. Public goods are the things we consume together - roads, primary and secondary education, public safety, environmental protection. They are the parts of our lives together, what we call community.

Not everyone has the same preferences for private and public consumption. If you prefer more private consumption than public consumption, then you will want lower taxes to preserve more of your financial resources to buy private goods and services. If you prefer more public consumption, then taxes need to be higher to pay for public goods and services. So, high or low taxes are a matter of your preferences and values.

Lower tax advocates want larger houses, more vacations, more food, more cars. Higher tax advocates want better schools, bigger libraries, cleaner air, better roads, more police and fire

protection. One or the other is not right or wrong, they merely reflect different values. So to say that a state is the highest taxed or lowest taxed simply describes choices made by citizens about the mix of public and private goods to consume.

The trouble with broad tax restrictions like a Taxpayer Bill of Rights is that they assume everyone in a state has the same preferences. The beauty of the current system in a representative democracy is that it lets citizens decide to be different. From town to town, citizens can choose to focus more on public or private goods. The same is true from state to state. Different people in different places will emphasize different types of consumption.

Some states will always be the highest-taxed state in the country. There is nothing inherently wrong with that state. What that means is that the people have chosen to consume the most public goods and services. So arguing about how to measure tax burden or about whether we are the most-taxed state misses the point.

What matters is whether the public services we are buying with our taxes match our values or not. Are we a state that values the individual over community or community over the individual?

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