

The Terrible Truth About Taxes

Nick Kypriotakis

“The Federal Government is the only entity left with the resources to jolt our economy back into life... As we've learned very clearly and conclusively over the last eight years, tax cuts alone can't solve all of our economic problems... We have tried that strategy time and time again, and it's only helped lead us to the crisis we face right now.”

Barack Obama – February 9, 2009

Really?

Despite this drearily banal campaign rhetoric, few of the conditions that led to America's recession had anything to do with limiting the financial resources of government. While there is a clear *correlation* between lower taxes and a flat-lining business cycle, there are no grounds to assume *causation*. Unfortunately, this common assertion often goes uncontested.

Consider a recent study relating the average global temperature to the existence of pirates. As the population of pirates decreases, the earth's temperature increases. While there is clearly a strong correlation between these two occurrences, it would be absurd to subsidize piracy in an effort to combat global warming. There is no causal relationship.¹

At this point my argument in defense of lower taxes and smaller government should be obvious. There are more reasons to assume that these initiatives alleviate the pressures of financial crises than instigate them.

“...it would be absurd to subsidize piracy in an effort to combat global warming.”

Terrible anecdote notwithstanding, the past eight years were indeed shocking. Credit tightened, insurance hardened, foreign conflicts escalated, mortgages imploded, fuel prices skyrocketed and yet it was only in the final months of 2008 that our economy truly suffered. Arguably the Bush tax-cuts were what kept our sinking economy afloat, providing capital and incentive to struggling American businesses. The final collapse could largely have been due instead to the political fear-mongering of both parties fighting for the presidency. Knowing that the economy is partially a reflection of public disposition, it is not unreasonable to equate America's caustic political process with our corroding financial system.

I digress. Even if lowering taxes is a bad idea, is increased government spending truly our only option?

For example, a company hemorrhaging assets in the manner of the current U.S. economy is not likely to invest 15% of its limited working capital in new vending machines.* Even though the remaining employees might enjoy their fresh selection of snacks, and the machines might have been desired for a long time, does not make the expenditure timely or prudent. Honestly, any corporate executive that considered such an option as a means of “stimulating” his/her ailing business would likely be fired.

Is this situation much different than current government spending proposals? What alternatives do we have?

In spite of President Obama's bold (if not naïve) declaration, the federal government essentially owns no resources. The money "benevolently" redistributed by Congress ultimately belongs to us. The latest spending packages are financed by the taxes we pay and the debt we owe to other countries. For this reason we need to look to the private sector, to the American people, to dig us out of recession. Ironically, private industry and small businesses are largely neglected by the "stimulus" bill. This inconsistency begs the question: If small, privately owned businesses account for 99% of all employers and provide 50% of American jobs, just who are our taxes supporting? ** What is our president's long-term plan for giving us our money back? Rebate checks?

There are other options: For instance, establishing more stringent immigration laws to reduce the costs of healthcare and education; increasing union oversight to protect businesses from wage exploitation and thus limit

outsourcing; developing an all-inclusive plan for energy independence to lower the costs of goods, services and transportation. Aside from being relatively inexpensive, all of these actions have the added benefits of increased national security and enhanced infrastructure.

To be clear, my argument is not a partisan one. This situation affects our entire country and supersedes any personal philosophy. People are hurting and in their desperation turning to a government more interested in its re-election than our reimbursement. Just because we want our leaders to do something, does not mean we should settle for anything. The consequences of such acquiescence are just too great.

**Find my anecdote outlandish? Do the math: The CIA World Factbook estimates America's annual GDP at roughly 13.5 trillion dollars. From December 2008 – January 2009, Congress has issued over 2 trillion dollars in new debt.*

***In 2007, a Harris Interactive Poll found that 54% of working adults expressed a great deal of confidence in small businesses. How does that number compare with those approving of Congress?*

Fig. 1 - Given that there is no causal link between either axis, this graph is absurd and rendered useless... sorta like Secretary of Treasury Timothy Geithner.

