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Making friends with t---s

Listen to the governor, or to most members of the legislature, and you know we just can't do it.

Look at the numbers, look at history, look at other states, and you know we've got to.

Raising taxes during a recession is nothing short of a taboo to Indiana's political poohbahs and their business constituency; but is it unsound economics?

That may depend on whether we accept two underlying presumptions of Gov. Mitch Daniels' adamance: that even a comparatively tiny tax hike would cripple commerce; and that holding the line makes us better, and better off, than other states.

The 16 states that reported to the National Conference of State Legislatures that they indeed raised taxes to cover revenue shortfalls during the current downturn might disagree.

So would noted Indiana University economist Morton Marcus, who calls it "ludicrous" to assert a tax hike would harm the economy and wrong to imply that cutting jobs and services out of state government does not.

"That assumes that government spending is not productive," Marcus says. "But what does government spend money on? On people, on real needs."

Compare to the sacred private sector, he adds, which in this holiday season alone "will engage in massive spending on non-essentials, while masses of people will not get health services."

Health, and education, may be next as the layoffs, pay freezes and suspended projects tried so far by the Daniels administration have failed to close the gap. Politically, those may be even less palatable than a tax increase.

Consider: The Indiana Fiscal Policy Institute, a private research body on taxes and government spending, says the state could raise as much as \$6 billion by extending the sales tax on services beyond the current 24 services to some or all of the untaxed 144.

Now, one may object that Indiana, while a low-tax state generally, already has one of the nation's highest sales taxes (which figures, inasmuch as it's a regressive tax).

OK, how about making our relatively low -- and flat -- personal income tax a little bit progressive? That could raise hundreds of millions, easily covering the shortfall.

"There are people in this state who made a lot of money, who prospered, during this ugly recession," a state legislator told me recently. "I don't know why we can't have a graduated income tax to get some of that money back. By getting rid of state employees, you're just pulling money out of local economies. They make purchases and pay taxes."

The legislator spoke on condition of anonymity, observing that an election year is coming for the General Assembly. Now, the debate is over whether to engrave property tax caps into the state constitution. More constriction of an already inadequate revenue stream, in other words; but with the consequences being dumped on local governments.

They can't keep doing that. But can they stop?