

Goals and Conflict in Government Taxation and Spending

Perhaps the greatest failing of the Framers was an absence of spending restraints and redistribution of wealth restraints at the federal level. The Constitution was defenseless against the rise of a powerful welfare state in the 20th century. The Income Tax amendment exacerbated this weakness by creating an unlimited form of taxation that has been used to politically promote class divisions and conflict.

The History

The Founding Fathers did not trust the altruism of leaders or the virtue of the governed. The Constitution reflects this distrust in the many compromises that were required to produce the document. Every culture and every time period has a context. At the time of the constitutional debates, the Inquisition and the presence of an autocratic monarch were major considerations. Many of the colonists had directly experienced the pain of religious persecution and the crushing power of a distant monarch. They insisted on the separation of church and state, and a system of checks and balances that retrained government power and domination by a single individual.

The signing of the Constitution left two major issues unresolved: 1) the power of the central government relative to the states, and 2) the issue of slavery. In the following 90 years, these issues were resolved in favor of the abolition of slavery and the growing strength of the federal government.

The Industrial Revolution accelerated after the Civil War and produced major wealth and wealth inequities. Business cycles and centralized finance had significant impact on the general population and the voters responded by supporting “progressive” government. The beginning of the 20th century marked the time that modern government departed from the vision of the Founding Fathers. None of the Founding Fathers anticipated the dramatic increase of power and scope of the federal government that began during World War I. The system of checks and balances began to break down, and many major politicians were openly contemptuous of the Constitution. The constitution was no longer able to restrain the rapid growth of the federal government.

The Founding Fathers got two things right. You cannot depend on the altruism of our leaders and you cannot trust the virtue of the governed. Public service has deteriorated to a staging ground for future profiteering. Equity in governing no longer means equality of opportunity for all citizens. Instead it is high level horse trading between power blocs. The voters have responded by gaming the system, evading/avoiding the tax laws, and supporting “special interest” legislation that supports their own perceived special interests.

The Modern Problem

The breadth and depth of this political chicanery and legalized corruption is so enduring that the average voter has lost the vision and will to resist it. They scramble to try to

regain some of the crumbs that fall from the federal table instead of limiting the use of their property by the federal government.

The electorate needs help. It is very difficult to protect the hive if most bees are out to get preferential nips of honey. The electorate only has a vote every two to four years to redirect or restrain this process, and that is not enough. The electorate needs some constitutional restraints on taxation and spending.

How can this difficult task be accomplished? The greatness of George Washington was partly due to his lack of idealism in matters of government. He believed that governing had to be correctly formulated to enforce the constitution and serve the interest of the citizens. He did not choose to measure results against an ideal. Instead, he measured the result against the needs of the government to perform its constitutional duty and promote the general welfare. These principles will be useful as we formulate a new tax and spend policies.

The 20th century saw a transition from an agricultural society to an industrialized modern nation. It saw a transition from a largely laissez faire government to a modern welfare state. By the 1980s, the voters began to believe that the modern welfare state had a limited reach. At some point, the welfare state would sap productively and the country would become progressively poorer and weaker. Individual incentives and property rights would be lost, and the cost and intrusion of government would become unbearable. This conflict between individual liberty and the welfare state continues to rage. The 1980s began the restructure of the system of taxation, but there was no corresponding reform of spending policies. The era of big deficits arrived. Spending as a percent of GDP and the reach of the modern welfare state has continued to expand.

It is difficult to change this system because almost everybody belongs to a “special interest group” that benefits in some way from government largesse. Spending and tax legislation is crafted in such a way that voter resistance is divided and the needed votes for passage are purchased by other spending or tax preferences. Despite gaining benefits, the cost and overhead of government operations has become so high that taxpayers routinely resist new taxes and eagerly defer costs to later generations. They are sure that “the other guy” is reaping the government preferences and benefits and he is stuck with the tax bill. It is likely that a substantial majority of the electorate would accept reduced government benefits in exchange for lower taxes. But, to achieve this objective, the voters would require assurance that the revisions are both broadly shared and difficult to change once implemented.

The Scope of a Solution

A constitutional amendment could be the basis of this change, but there are a number of significant problems. First, a constitutional amendment must work for all time in all circumstances. Since it is impossible to predict all circumstances, specific prohibitions on spending or taxation are unlikely to stand the test of time. Second, it takes a very substantial majority of voters to pass an amendment. In addition to a more equitable system, most taxpayers would have to see a tangible reduction in their own taxes to vote

for an amendment. This might be difficult to achieve since the government budget is already in substantial deficit. Third, legislators are products of the status quo. As a group, their livelihood depends on the “tax and spend” horse trading that is the hallmark of our system. As individuals, changes are not in their best interest. Fourth, the mechanics of transition to a new system will be difficult and could adversely affect current operation of the government and economic stability.

If this is so difficult, why bother to change? It is simply because our system is inherently unstable. Without change, poverty and revolution are in our future. Much is made of the “government keeping its promises.” In fact, the government will not keep the current promises of Social Security, Medicare and Medicaid. We have a small window of opportunity to make necessary changes before we are so deep in the quicksand that extraction is politically impossible. The result of failure is a possible economic death spiral of rapidly increasing taxes and a collapsing economy.

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January 03, 2005