

Flea market economics

by the St. Louis Post-Dispatch

"The first thing I'd love to do as president: Put a 'Going out of business' sign on the Internal Revenue Service"

So says Mike Huckabee, the victor in the Republican Iowa caucuses who was among the front-runners in the New Hampshire Primary. It's an effective applause line, particularly in tax-averse New Hampshire. But it's a troubling statement and would be disastrous policy.

If elected president, the former Arkansas governor wants to abolish income and payroll taxes on individuals and corporations. Gone would be all taxes on pay, interest, capital gains and estates. The IRS would disappear. Instead, everyone would pay a massive 23 percent retail sales tax on all the goods they buy. Huckabee calls it the "fair tax," but it's anything but. It would be wonderful for the wealthy, but disastrous for working-class and middle-class Americans. It runs starkly counter to Huckabee's populist image. It is so poorly conceived that it suggests he may not be ready for prime time.

Huckabee built a solid record in Arkansas. He added children to the state health care rolls, built roads and made the public schools more efficient. He governed as a true compassionate conservative.

But as he moves onto the national stage, his prescriptions for America deserve more attention. His vision for the tax system is scary.

Sales taxes are regressive, meaning that they bite harder at the poor, the working poor and the middle class than at the wealthy. This happens for two reasons: Most Americans spend nearly their entire paycheck every month, most of it on the basics: food, clothing and shelter. The nation's personal savings rate is near zero. So most Americans will be paying the 23 percent sales tax on the great bulk of their income.

By contrast, the well-off have incomes far beyond their needs. They save and invest much of their money. Under Huckabee, savings and investment income won't be taxed. So the wealthy will pay taxes on a smaller part of what they earn. The well-off also spend more on services, while the average citizen buys mostly goods. Sales taxes cover goods but relatively few services, pushing more of the burden on folks in the middle class and below. For example, a middle class homeowner pays sales tax on his new lawn mower, but the wealthy man's lawn service would come tax-free.

A family smack in the middle of the income spectrum now pays 14 percent of its income in federal taxes, according to the Congressional Budget Office. Trading a 14 percent income tax for a 23 percent sales tax is a raw deal, particularly for the working poor. They often pay no income taxes but get a refund anyway

through the earned income tax credit. Under the "fair tax," they'd have no income tax or refund.

Huckabee would lessen this effect by rebating sales taxes to everyone until their spending reaches the poverty level, about \$17,000 for a family of three. Used goods, such as used cars, wouldn't be taxed. That might be a boon to flea markets, but his plan is a huge shift in tax burden off the well-to-do onto nearly everyone else.

Huckabee says a 23 percent tax would be "revenue neutral," meaning it would bring in the same amount of money as today's tax system. Other economists think the rate would have to hit 50 percent to raise the same revenue, considering Huckabee's rebate plan.

How would you like to pay a 50 percent federal tax on your next grocery bill, with local sales taxes added on top?

The Huckabee plan is based on the theory that by taxing consumption, rather than income, we encourage savings and investment, and that leads to economic growth. It's the old trickle-down theory, and it doesn't work. In fact, the grand economic boom of the 1990s occurred when income and investment taxes were considerably higher.

Simply put, Huckabee's plan would make life unaffordable for millions of Americans. The fact that he doesn't comprehend this raises profound questions about his grasp of economics.

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