

Virginia Viewpoint

June, 2001 • No. 2001-5

Why Does Tax Freedom Day Come Later Each Year?

By Richard E. Wagner, Ph.D.

Summary

Why does Tax Freedom Day move in one direction only and creep ever closer to Independence Day? First, there is a political bias toward spending other people's money rather than cutting taxes. And second, there is a democratic bias toward higher rather than lower taxation.

Main text word count: 763

The so-called tax reductions recently passed by Congress will not cause Tax Freedom Day to occur earlier. They will only slow its advance. After the full implementation of President Bush's tax cut, Tax Freedom Day will come two days later than it now occurs.

It may appear to be a joke, but the comedian Bob Hope was making a serious point when he said, "You don't see me in Las Vegas or the racetrack throwing my money around anymore. I've got a government to support." Each year we work part of the year to support our governments and the rest of the year to support our families. Tax Freedom Day is when we stop working to support the political class and start working to support ourselves. Tax Freedom Day was May 3rd this year. It has never come later.

Tax Freedom Day is a statistical creation. Total taxes are 33.8 percent of total income throughout the nation, and May 3rd is 33.8 percent of the way through the year. The exact arrival of Tax Freedom Day depends on the state where you live. In Virginia it occurred on April 30th, the same for California and Maryland. It came on April 16th for someone living in Alaska, but those living in Connecticut had to wait until May 25th.

Above the entrance to the headquarters of the Internal Revenue Service is chiseled a quotation from Oliver Wendell Holmes: "Taxation is the price we pay for civilization." It is easy to see why the IRS would display this quotation. A surface reading might seem to suggest that we should gladly accept whatever taxes are imposed on us. A deeper reading, though, reveals ambiguity about taxation. After all, our nation was founded on the proposition that taxes can become too high. We can acknowledge with Holmes that proper taxation may well be a price we pay for civilization, while at the same time recognizing with our forebears that taxation becomes destructive if allowed to get out of control.

How do we assess our current situation? While there are short periods in which the arrival of Tax Freedom Day does not change very much in either direction, the long-term trend is clearly one in which we spend more and more of the year working for the governments. The last time Tax Freedom Day occurred in the month of March was 1954. By the time Nixon took office in 1969, it was April 21st. From Nixon to the elder Bush there was little overall change, as Tax Freedom Day was occurring on April 20th at the time of Clinton's inauguration. During Clinton's two terms, he extended it into the calendar year by two additional weeks.

The so-called tax reductions recently passed by Congress will not cause Tax Freedom Day to occur earlier. They will only slow its advance. Without the President's tax program, Tax Freedom Day ten years from now would occur on May 10th. With the President's program, it will arrive on May 5th. After the full implementation of President Bush's tax cut, Tax Freedom Day will come two days later than it now occurs.

We should remember that in contemporary Washingtonian English a tax cut does not mean a true cut in your taxes. It means only that your tax increases will be less than what the Treasury Department had planned for them to be. Any proposal to decrease future increases in taxes is called a tax cut. Any proposal to reduce proposed increases in spending is called a spending cut. Yet taxes are not cut. Nor is spending. Debates over so-called cuts are simply talkathons over how much to pare back projected increases in taxes and spending. This reflects a political bias for spending money rather than returning it to taxpayers and explains why genuine tax reductions are never discussed.

There is also a democratic bias toward higher rather than lower taxation. Consider this simple illustration. There are five people who must decide by majority vote whether to cut each of their taxes by \$100. Suppose the tax cut would eliminate a public program that is worth \$360. The tax cut would seem to make good sense. However, if the \$360 of government provided goodies is concentrated among only three of the people, tax reduction would fail. Those three people would continue to vote themselves \$120 of benefits for \$100 of taxes.

Tax Freedom Day is not a perfect indicator of the costs imposed by taxation. It is, however, a useful indicator. Even the serfs of the Middle Ages attained tax freedom by the first of April. It is too bad that Bob Hope and Bing Crosby stopped making their famous "Road to ..." movies. Perhaps we could have anticipated a sequel entitled "The Road to Serfdom," although I'm not sure how that would have been made into a comedy.

#####

(Richard E. Wagner is Holbart Harris Professor of Economics at George Mason University, and a member of the Board of Scholars of the Virginia Institute for Public Policy, an education and research organization headquartered in Potomac Falls, Virginia. **Permission to reprint in whole or in part is hereby granted, provided the author and his affiliations are cited.**)

Any proposal to decrease future increases in taxes is called a tax cut. Any proposal to reduce proposed increases in spending is called a spending cut. Yet taxes are not cut. Nor is spending.

Attention Editors and Producers

Virginia Viewpoint commentaries are provided for reprint in newspapers and other publications. Authors are available for print or broadcast interviews. Electronic text is available at www.VirginiaInstitute.org or on disk. Please contact:

John Taylor
Virginia Institute for Public Policy
20461 Tappahannock Place
Potomac Falls, Virginia
20165-4791

Phone: (703) 421-8635
Fax: (703) 421-8631

www.VirginiaInstitute.org
JTaylor@VirginiaInstitute.org

**Virginia
Institute**
for Public Policy