



# Pick Your Poison: Income Tax or Sales Tax

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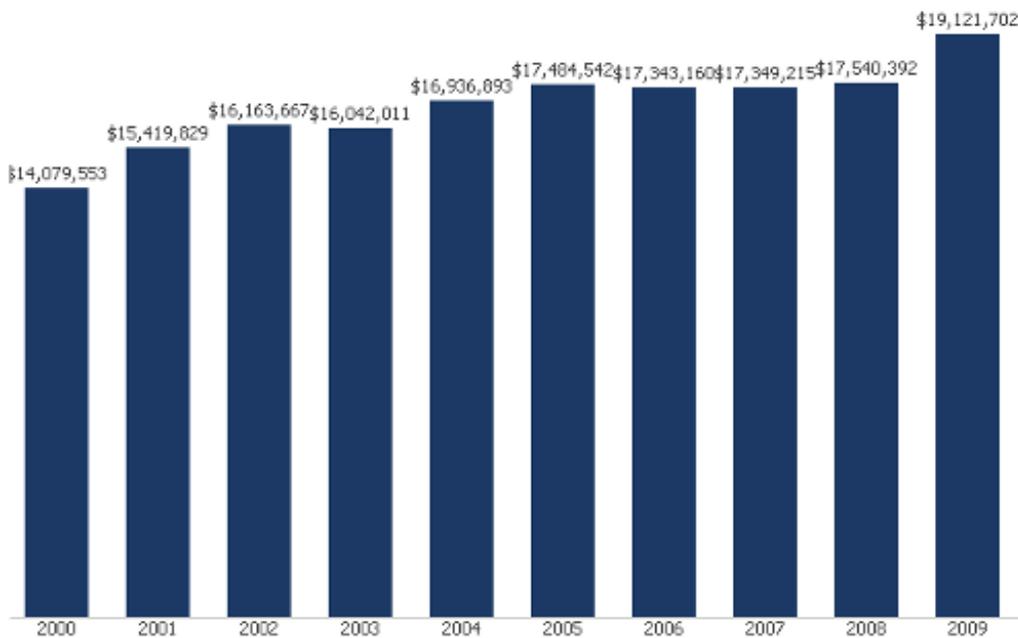
By: *John Payne*

I attended the [Show-Me Institute's forum](#) on Missouri's tax system in Columbia yesterday, which featured a spirited debate about the most efficient and equitable method of taxing Missourians. Show-Me Institute scholar Ed Robb defended a "Fair Tax," and argued that by replacing the state income and corporate taxes with a somewhat higher and broader sales tax (with an exemption for the poor), Missouri could significantly boost its economic growth, making us all better off. However, Amy Blouin of the Missouri Budget Project countered that the sales tax would have to be much higher than Robb estimates in order to offset all the revenue the state would lose by eliminating other taxes. Finally, Mizzou economics professor Jeff Milyo made the case that the type of taxation is not nearly as important for economic growth as the level of taxation (lower taxes result in higher growth), but a sales tax might be marginally preferable over an income tax because it is lower and broader.

I am by no means an expert on this issue, but one of Blouin's arguments against the sales tax struck me as odd. Blouin contended that if we replaced all other taxes with one simple sales tax right now, it could tie Missouri's government to recession levels of revenue, which are much lower than normal. The first problem with that is a tax on consumption should not

be any more sensitive to economic fluctuations than a tax on income — both rise and fall with the business cycle. In fact, the Show-Me Institute's executive vice president Joseph Haslag, who is also an economics professor at the University of Missouri–Columbia, has argued that [sales taxes tend to be less volatile than income taxes](#) .

More importantly, however, even if the Fair Tax were to lock Missouri's government into a relatively low level of taxation, what's wrong with that? According to this chart I generated using our new "[Show-Me: The Spending](#)" tool, government spending in constant 2009 dollars has grown from \$14 billion in 2000 to \$19.1 billion last year — an increase of more than 35 percent.



Even as revenues fell in 2009, spending still increased at a rate of 9 percent during 2008. Maybe if revenues were to remain low, politicians and bureaucrats would learn more quickly that they cannot spend tax dollars with no thought for the long-term consequences.

## About the Author



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