



# ESSAY

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**INCOME  
TAX**

**GROWTH**



## ATTACKS ON FAIR TAX ARE PROPAGANDA, NOT ECONOMIC ANALYSIS

*By David Stokes*

The Coalition for Missouri's Future, a group organized to oppose efforts to eliminate Missouri's income tax and replace it with a more broadly-based sales tax (a.k.a., The Fair Tax), has produced a series of papers questioning the benefits of the switch. The papers — currently there are five — have been written by Brian Schmidt, the former executive director of the Missouri General Assembly's Joint Committee on Tax Policy, who is now doing private consulting. The papers raise some interesting questions and fair points, but they cannot be considered legitimate economic

analysis. If the organization who commissioned the papers wanted useful propaganda, they got it. If they wanted any type of serious economic analysis, the papers fail completely in that regard.

The issue of exchanging Missouri's income tax for a new sales tax system is important for Missouri. States without income taxes are experiencing greater economic growth than states with income taxes. That is an undeniable fact. However, it does not automatically follow that Missouri would benefit from making such a change. I think Missouri would, but these are important questions

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and people deserve careful, considerate analysis. Missourians do not deserve a piecemeal approach focusing on scare tactics and lacking any numbers.

Any serious economic analysis will always include attempts to measure both the costs and benefits of proposals. That is one of the defining characteristics of economic research: an attempt to comprehensively measure the costs, both positive and negative, and the effects, both seen and unseen, of the subject. No matter how perfect or ludicrous an economic idea, some person, at some level, will see some type of benefit and another person will see some type of loss. You could suggest we impose a Maoist agrarian dictatorship in America, and even that would have some people who benefit. (In this case, the beneficiaries would probably be limited to the dictator himself and the owners of your local John Deere franchises.) The point is that Schmidt, as author of these papers, *fails to consider at any point in the five papers* the benefits to the economy from eliminating the state income tax. As such, this series of papers should not be considered a serious attempt to gauge the benefits and costs of the Fair Tax.

It is indisputable that eliminating the state income tax will increase economic activity. Giving every working Missourian a 6 percent raise will result in that income being saved or spent – and both choices have positive benefits for Missouri's economy. What is debatable is whether the economic gains from the change will outweigh the costs. Will the more broadly based and higher sales tax reduce economic

activity more than the eliminated sales tax will increase it? Will the new sales tax system adequately fund the necessary functions of government? I believe the benefits of eliminating the income tax will be wide, the harms from the new sales tax will be narrow, and the future revenues sufficient. But nobody at the Show-Me Institute would claim there are zero negative effects, nor would we intentionally ignore those negative effects when framing and analyzing the issue.

(Please visit [www.showmeinstitute.org](http://www.showmeinstitute.org) to see the work that the Show-Me Institute has done on the issue of income versus sales taxes:

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[www.smiinfo.org/tip-the-odds](http://www.smiinfo.org/tip-the-odds)

Every writer focuses on his or her strengths. Mr. Schmidt spent many years in state government, so his strength is knowledge of state statutes and how they relate to tax policy. He puts that experience to good use asking some legitimate questions about how the proposal will alter current laws. For example, his discussion of how a potential tax on advertising would work is informative and his points need to be addressed. But, perhaps not surprisingly for someone with his

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background, he ignores the forest and focuses entirely on the trees. Schmidt raises interesting, technical points about taxing automobile sales if one of the current versions of the Fair Tax being proposed is passed. Those are the trees. Yet, he avoids necessary questions about the forest, and writes about the potential harm to car sales in Missouri from a higher sales tax without considering the benefits to the industry from giving Missourians more money to spend on cars in the first place.

Open-ended suggestions of major problems without any attempts to put the issues in a larger context are consistent throughout the work. Schmidt always assumes a worst-case scenario, never considers the benefits to any proposed changes, and makes no attempt to prove — even in part — any of his analysis with actual numbers. If these papers were written for print

publications with strict word limits, I might understand some of these choices. But they have been published online, with no apparent size limitation, and as such, the lack of any contextual thinking is unpardonable.

It is not the responsibility of the opponents of the Fair Tax to answer voters' questions about the issue. That is the job of the idea's backers. But, if the opponents are going to purport to engage in an economic analysis of the issue, they do have a responsibility to produce legitimate work instead of partisan disinformation. Missourians deserve a serious analysis from opponents demonstrating why replacing the income tax with a more broadly-based and higher sales tax would be harmful to economic growth and public services in Missouri. So far, we have witnessed nothing but mud-throwing to see what sticks.

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