OPINION

What the U.S. really doesn't need is further tax cuts for the rich

OTHER VOICES

BY MICHAEL J. MCINTYRE

In a recent column printed in The Ann Arbor News (Nov. 8), James Pinkerton bemoans the lack of political support for the recommendations contained in the report of President Bush's Tax Reform Commission. The commission proposed the curtailment of the popular deduction for home mortgage interest to finance further tax cuts for the rich. Instead of recommending an end to corporate tax shelters, it endorsed a proposal for a "territorial" corporate income tax that would facilitate the shifting of income by U.S.-based multinationals from the United States to foreign tax havens.

Pinkerton expresses regret at the almost immediate political dismissal of the report, by both Democrats and Republicans. In his view, further tax cuts for the rich would be a very good thing. Pinkerton then goes on to recount what he claims to be the history of tax reform since the New Deal of the 1930s. He manages to get just about all of the important facts wrong.

First, he is wrong in claiming that the New Deal of the 1930s brought tax rates of up to 94 percent. The really high U.S. rates, reaching 91 percent, were adopted during the war years of the 1940s, mostly to curb war profiteering and to promote shared sacrifices while the troops were fighting in Europe and the Pacific. Those taxes had no known negative effects on productivity or investment. On the contrary, the U.S. economy experienced robust growth during the war years.

Pinkerton credits these high wartime taxes to Keynesian economists, but again he is off the mark. Keynes and his followers had almost no influence on U.S. tax policies in the 1940s and little impact in the 1950s. It was under President Kennedy in the 1960s that the policies recommended by Keynes took hold. And those policies were a grand success, bringing prosperity and full employment to America.

They included a major tax cut in 1962 — Keynes was not an opponent of tax cuts when the economic circumstances justified them.

According to Pinkerton, the weak performance of the U.S. economy in the 1970s (under Presidents Nixon, Ford, and Carter) was the result of the failure of Keynesian policies. Apparently, he is unaware of the oil shocks of that decade and the worldwide economic slowdown they created. One can fairly criticize the Nixon and Ford administrations for the failure of their monetary policies during that period. That failure, however, has little to do with the Keynesian view that governments should stimulate the economy during periods of recession with deficit spending.

The economic hero for Pinkerton is President Reagan, but again his account of the 1980s is either wrong or incomplete. President Reagan and his congressional supporters did cut taxes sharply in 1981. Those tax cuts, which were supposed to pay for themselves, were a failure, contributing to the worst recession since the 1930s.

President Carter had acted, somewhat belatedly, to deal with the problem of stagflation he inherited by appointing Paul Volcker as chairman of the Federal Reserve. Volcker proved to be a fierce inflation fighter. When the Reagan tax cuts were enacted, they had a sharp inflationary effect, which Volcker sought to offset by contracting the money supply. The resulting mismatch of fiscal and monetary policies turned a mild economic downturn into a roaring recession, most notably in Michigan.

The country started to come out of the Reagan recession in 1982 only after President Reagan, with bipartisan support, had rolled back much of the corporate tax cuts enacted in 1981. President Reagan also dismissed from office the supply side economists responsible for promoting the failed 1981 tax act.

The great success of the Reagan years was the 1986 tax reform act, justly famous as the most important income tax reform since the adoption of the income tax in 1913. It was not a tax cut. It raised taxes on corporations considerably and cut taxes moderately on the lower middle class. Over all, it was revenue neutral. Most importantly, the 1986 act ended the wasteful tax shelters that had flourished in large measure due to the Reagan tax cuts of 1981.

That is, the 1986 reform was a ringing condemnation of the failed tax policies of the early Reagan period — and a credit to President Reagan and his economic team for their ability to learn from experience.

And then we get to the 1990s. The structural deficits created during the Reagan years continued to drag down the U.S. economy.

President Bush had sought to curtail the deficits by breaking his "no new taxes" pledge, but his 1990 tax increase was too little and too late. It was too little to solve the deficit problem, and too late to affect the performance of the U.S. economy in time for his re-election campaign. In the end, the Bush tax increase, matched by a more expansive monetary policy from the Federal Reserve, provoked an economic recovery that did not come into full swing until President Clinton had replaced Bush in the White House.

The deficit problem, however, still was soaking up private savings, reducing national income, and exporting good jobs. President Clinton and a Democratic Congress fixed that problem in 1993 by promoting a tax increase on the rich, raising the top rate from around 36 percent to around 40 percent. Conservatives predicted disaster — lower federal revenues and slow growth. They were dead wrong, as usual. Federal tax revenues soared, and the economy enjoyed the longest period of sustained growth in the recorded economic history of the republic.

And the deficits were eliminated — President Bush inherited a small surplus when he took office in 2001.

Unfortunately, the President's Tax Reform Commission seems to have read the same fictionalized history books as Pinkerton. Its ideologically driven members seem not to understand that a government creates a long-run drag on growth and job creation when it cannot pay its bills except by borrowing. To boost the U.S. economy and preserve good jobs at home, the United States needs to raise taxes enough to fund the federal budget. It also needs to work in cooperation with our major trading partners to bring international tax evasion and avoidance under control. What it does not need is more tax cuts for the rich.

Michael J. McIntyre is a professor of law at Wayne State University. He lives in Ann Arbor. News readers can contribute essays of general interest to Other Voices. Please call the editorial page editor at (734) 994-6764.