New American

Written by **William P. Hoar** on December 4, 2017

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Correction, Please!

Promoting Tax Cuts for Economic Growth

Item: *A front-page article in the* New York Times *for November 3, 2017 reported that the "House Republican tax bill is a clear windfall for corporate America and a roll of the dice for the middle-class families…. Early projections suggest the bill would cut taxes for an average middle-class family. But the typical cut could be relatively modest, compared with the benefits for businesses and high earners."*

A companion Times *article on page one said the "bill is heavily weighted toward business, which would receive about $1 trillion in net cuts, or two-thirds of the total, according to calculations by the Joint Committee on Taxation. At its center is a proposal to permanently cut the corporate tax rate to 20 percent from 35 percent — a change that is estimated to reduce federal revenues by $1.5 trillion over the next decade alone."*

Item: *The editors of the "liberal" establishment* New York Times *appeared to be outraged in their editorial on November 3, saying that in the newly unveiled bill, "House Republicans and President Trump are making it absolutely clear whom they are working for — the top 1 percent — and whom they consider dispensable. Well, that's pretty much everybody else."*

The editorial ("A Tax Plan for the New Gilded Age") concluded: "It will take experts weeks to fully analyze the House tax bill, but what we already know is frightening enough."

Item: *Robert Samuelson, writing in the Washington Post for October 30, maintained that "we really don't have conclusive historical evidence of the relationship between tax rates and economic growth." He acknowledged that "studies abound," but said: "The truth is that, among economists, there is no consensus on the role of tax rates in explaining economic growth."*

Item: *Another piece in the left-wing Washington Post, also on October 30, was headlined: "Stop obsessing about tax cuts," with the cutline reading: "Tax cuts are a big distraction that keeps us from grappling with the problems we really need to solve." Columnist E. J. Dionne, Jr. blasted the "various … benefits showered on the well-off" that would, as he put it, "only aggravate existing inequalities. And by depleting the government's coffers, it would make it much harder to finance public initiatives in education, job training and other spheres to promote mobility for Americans who are lagging behind."*

Correction: Washington, D.C., is the seat of the government. However, regardless of the intermediaries, the American taxpayer serves as the pants pocket.

The ideal type of taxation is apparently the type that is paid by somebody else. And the perfect recipients of the transferred wealth — from the standpoint of the statist legislators and their left-wing media collaborators — are their favored political clients. Generally ignored in the process is the source of the "government revenue" that is being redistributed: those who earned the money in the first place.

Both supporters and critics of the tax reform being debated (and undoubtedly altered over time) are on target in noting that the plan is more focused on the "business" taxation side than on the "individual" side. That said, business tax reform does affect individuals — and not just the often-vilified "top 1 percent" in income. Ultimately, it is the consumers, workers, and investors who bear the cost of corporate income taxes.

Yes, high corporate taxation does hurt workers (and potential employees). When firms get hit with more taxes, they make efforts to offset the costs. One way to do that is to lower the cost of labor. This might mean cutting wages or perhaps moving somewhere where taxes are lower. In the latter case, the government tariff could cost the worker his job altogether. Companies also try to offset additional taxes by increasing their prices. Consumers pay for it through more expensive goods and services.

The existing code hurts individuals in a direct fashion, but also indirectly, by keeping corporate tax rates high and uncompetitive. As noted by Stephen Moore, an economic writer and policy analyst:

We punish our businesses with the highest tax rates in the world: America is supposed to be the land of the free and a paragon of free markets and free enterprise. Yet today, the 40 percent tax rate in the U.S. is the highest in the world.

Yes, higher than socialist Sweden and higher than former communist countries like Russia and China. Our combined federal and state tax rates are almost twice the rate of the countries we compete with. It's almost as if the system were designed by the countries that we compete with so they could steal our jobs, factories and businesses.

These high tax rates put American companies at a 20-percentage point disadvantage in global markets. Trump is right when he says the rest of the world is laughing behind our backs.

Nations in Europe are also recognizing the harmful effects of heavy taxation on their businesses. France, of all nations, is making significant cuts. In October, President Emmanuel Macron got a tax-relief measure through the French legislature.

As the *Wall Street Journal* noted, the top tax rate in France "on corporate profits will fall to 28% by 2020 from 33.33% today, and Mr. Macron has promised 25% by 2022. Paris is rolling out a flat 30% rate on capital income such as realized gains and dividends, compared with rates as high as 45% on some gains today. The budget also eliminates the wealth tax on all assets except real estate." The editors asked rhetorically: "Do American politicians really want to have to explain to voters why they let the U.S. trail even France?"

Also looking at our European competitors, the Tax Foundation recently observed that the United States has

not reduced its federal corporate income tax rate from 35 percent since the early 1990s. As a result, its combined federal, state, and local corporate tax rate of about 39 percent is significantly higher than the average rate of 25 percent among OECD [Organization for Economic Co-operation and Development] nations.

In addition, as most OECD nations have moved to a territorial tax system, the United States has continued to tax the worldwide profits of its domestic corporations.

There is no doubt that the tax reform effort under consideration could be better. And the plan submitted does not place enough emphasis on cutting expenditures. As a result, the fans of huge expenditures of public monies are making hypocritical noises against the deficit spending that they championed for decades.

The contention (see Robert Samuelson, above, for example) that there is no “consensus” among economists about the link between taxes and growth is, at best, disingenuous. Obviously, there are some with differing views. Yet, it does not require a doctorate in economics to see that if there is a reduction in the corporate tax rate, it lowers the tax burden on firms and workers. And there are scads of academic studies about this subject. An exhaustive number of such studies have been summarized — by an expert with a Ph.D., no less — for the Tax Foundation. William McBride took a detailed look in 2012 at the pertinent academic literature and found that “nearly every empirical study of taxes and economic growth published in a peer-reviewed academic journal finds that tax increases harm economic growth.” He examined 26 such studies going back to 1983. “All but three of those studies, and every study in the last fifteen years, find a negative effect of taxes on growth,” he found.

Photo: AP Images

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In his paper (“What Is the Evidence on Taxes and Growth”), McBride concluded: “While there are a variety of methods and data sources, the results consistently point to significant negative effects of taxes on economic growth even after controlling for various other factors such as government spending, business cycle conditions, and monetary policy.” He further noted that, of those studies that did “distinguish between types of taxes, corporate income taxes are found to be most harmful, followed by personal income taxes, consumption taxes and property taxes.”

These various reports, McBride said,

> support the Neo-classical view that income and wealth must first be produced and then consumed, meaning that taxes on the factors of production, i.e., capital and labor, are particularly disruptive of wealth creation. Corporate and shareholder taxes reduce the incentive to invest and to build capital. Less investment means fewer productive workers and correspondingly lower wages.

The reform package introduced on Capitol Hill was predictably hit from many directions. It isn’t the package that many conservatives preferred — including this writer — but this is what is on the table. The discussion here highlights what many would call the business side of the proposed reforms. In the view of the Heritage Foundation:

> The combination of business tax reforms — including a top 20 percent corporate tax rate, five years’ worth of full expensing, and a modernized international tax system — would provide a huge boost to the U.S. economy and its workers.
>
> These business changes have the potential to bring trillions of dollars back into the United States and to significantly boost economic output, jobs, and incomes within the U.S.
>
> This tax proposal marks a huge improvement over the status quo. It would go a long way toward making America more competitive and toward improving the lives and financial well-being of all Americans.

For their part, the editors of the *Wall Street Journal* are clearly not enthused over the overall package, but do give good marks to the business side ("Half a Tax Reform," November 2, 2017), saying in part:

> The good news is that the House finally grasps the nettle of corporate-tax reform that Barack Obama ducked and has hurt the U.S. economy for years. Ways and Means cuts the top corporate rate to 20% from 35%, which would make the U.S. more competitive across the globe (Ireland's rate: 12.5%). The U.S. would move to a territorial system that taxes income where it is earned, and profits already earned overseas would be invited back at a discount: 12% for cash, 5% for illiquid assets.
>
> This should stop the run of U.S. business "inversions" overseas, while making America more welcoming to investment. The rate cuts would be permanent, which means more certainty for business. Another growth boon is 100% business expensing for five years, which Congress would face pressure to continue in 2023.

Some parts of the potential reform on the business side were panned in some quarters as details emerged of the draft. Among these were aspects that seek to reduce the top tax rate to 25 percent on "pass-through" businesses, which pay taxes on the business owner's income tax returns. In 2011, these entities employed more than 50 percent of private-sector employees, according to the Tax Foundation. These businesses now pay at the individual federal rate of 39.6 percent. There are large companies in that category, but there are also smaller "mom-and-pop" ones. Many small businesses would not qualify for the 25-percent rate (at least 10 million small businesses by one account). Accordingly, as the *Wall Street Journal* noted in its November 4-5 issue, the "National Federation of Independent Businesses, which advocates for small firms, said it won't support the bill in its current form."

There are bound to be changes, with lobbying and other pressures placed on the plan as it goes through the House and Senate. (Real-estate groups are pushing hard to keep deductions on mortgage interest, for example.)

To date, much of the political and media maligning over the tax reform has involved class-warrior propaganda. It didn't require a sibyl to see that coming.

The comments of California's Representative Nancy Pelosi are typical, as she has harangued about "ransacking all the middle-class benefits," claiming that Republicans are using this "scheme to use the debt they pile up today to obliterate Medicare and Medicaid tomorrow." A statement written in the name of the house minority leader scolded this as "a Ponzi scheme that corporate America will perpetrate on the American people." Yet, she insisted, "if you're the wealthiest 1 percent, Republicans will give you the sun, the moon, and the stars — all of that at the expense of the great middle class."

There are also those who might make "the perfect" the enemy of "the good" (or at least "the passing"), wanting to dump this bill because it doesn't fulfill all their wishes. That is tempting, but often impractical.

In this regard, consider the words of the British physician credited with inventing the radar that played an invaluable part in the Battle of Britain. Robert Alexander Watson-Watt justified his choice of a non-optimal radar frequency with what he termed the "cult of the imperfect." He described that as follows: "Give them the third best to go on with; the second best comes too late, the best never comes."

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