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Too Taxing for Reporters?

The press is dropping the ball on the tax story.

By Richard W. Rahn

On *Fox News Sunday* a few weeks ago, Senate minority leader Tom Daschle was twice asked a simple question that he refused to answer: "What do you think the maximum income tax rate should be for any American?" This question is at the core of the debate about the structure of the tax cut, yet very few reporters have asked members of Congress to answer it.

George W. Bush has often said that no American should have to pay more than a third of his income in taxes. Public opinion polls have consistently shown that most Americans believe that no one should have to pay more than approximately 25 percent of his income to the government.

The Kennedy tax cuts in the early 1960s are correctly considered a great success, and are given credit for much of the economic boom of that decade. The press, Democrats, and even Republicans seem to have forgotten that the Kennedy tax cuts were put in place at a time when the government was running a deficit and the debt was a larger share of GDP than it is now. The Kennedy tax cuts were, relative to the size of the economy, about three times larger than the cuts that Bush proposes. Most interesting, in today's parlance, they benefited the rich much more. In the Kennedy plan, the top rate was cut by 23 percent, versus only 17 percent in the Bush plan. The Kennedy cuts were proportional, while the Bush plan cuts the bottom rate by 33 percent, giving a greater benefit to low income workers, and actually increasing the progressivity of the income tax.

In light of the history of the Kennedy rate cuts, why is the press not asking those who say the tax cut is too big to give supporting evidence? And what about the Democrats who say the Bush proposal is too beneficial to the rich: Didn't most Democrats support the Kennedy plan, which was much more beneficial to the rich? Could we be seeing political bias, or is it just ignorance of economic history?

Many of those who argue that we cannot afford tax cuts often confuse tax rates and tax revenues. If tax rates are lower, individuals and businesses have more incentive to produce and invest, which means that more people obtain jobs and pay taxes. Taxes from the additional job holders offset some of the decrease in revenue caused by the rate reduction. Some who have argued for a smaller tax cut have made the conceptual error of assuming that economic and employment growth would be as strong with higher tax rates as it would be with lower tax rates. Economic models that include the incentive effects of the rate changes in the tax plan show revenue feedbacks of hundreds of billions of dollars (which means the actual revenue loss would be much smaller), but few in the press have bothered either to report or explain this important fact.

Those who say that we cannot afford the tax cut should be required to show that the government programs they want to use the money for are more cost effective and add more to the social welfare than leaving the money in the private sector for the taxpayer to spend or save. Again, it is rare to see a member of the media press these points.

Almost daily, reporters say or write that big deficits cause inflation. The statement is both theoretically and empirically untrue. Inflation is caused by the money supply growing faster than the supply of goods and services. The Federal Reserve controls the growth rate of the money supply. The growth in the supply of goods and services is greatly influenced by tax and regulatory impediments on productive activity. That is why, following the Reagan tax cuts, we were able to have record drops in the rate of inflation and interest rates, a very large increase in real incomes for most Americans, and a major decline in the unemployment rate, despite increasing deficits. Most recently we have been experiencing a sharp drop in economic growth, increasing unemployment and a bump in inflation, despite record budget surpluses. These facts are rarely reported.

It can be dangerous for a government to have an excessively large debt, and there are also problems when a country like the US has no debt. The non-business mainstream press has almost uniformly treated debt and deficits as bad, and surpluses and debt reduction as unambiguously good. Such uncritical reporting and advocacy can lead to very bad and potentially disastrous policies.

Reporters do not have to be trained economists to ask the right questions and get their stories right. Reporters do face the problem of knowing which economists are sound, but fortunately any who care to can easily check the track records of most public policy economists by researching their articles through the years. The objective evidence shows that most of the supply-siders got it pretty much right, and most of the Keynesians were pretty much wrong over the past two decades. All too often, laziness and a left-leaning ideology in much of the mainstream press have led to sloppy economic reporting, which has led to sloppy economic policy, which has led to lower economic growth.

I, for one, would really like to know what each member of Congress thinks is the maximum “fair” tax rate, and the ideal size of government (as a percent of GDP) and why. If a member of Congress cannot answer, how can he or she responsibly vote for any tax or spending bill? This is pretty basic, yet few journalists even try to get us the answers.

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