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Bush is on right track

Opposing View: Tax cuts would help all people, enable businesses to create new jobs.

*By Richard W. Rahn
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The administration will propose a tax-reform, tax-cutting package that will create more jobs and higher growth, making everyone better off.

It will likely include a reduction in the double taxation of dividends. Critics, because of economic ignorance or demagoguery, will claim this benefits only rich corporations and stockholders. What they ignore is that the taxes corporations collect for the government come from the pockets of their customers, workers and shareholders.

U.S. corporate-tax rates are among the highest in the world, because our international competitors have been reducing theirs. The tax on each dollar of corporate earnings often exceeds 70% when federal and state corporate taxes and personal income taxes on dividends are added up. These heavy taxes make the cost of investment capital much higher for U.S. firms than for many of their foreign competitors.

With a lower tax burden, business would be able to invest more to create new and higher-paying jobs and new technologies, resulting in more payroll and income-tax revenue for the government. Increased profits from this additional investment and resulting productivity growth would offset much of the revenue loss from the lower tax rates, or perhaps all of it and more. Critics will also say tax reduction will increase deficits and cause inflation. In fact, deficits are far more a function of economic growth and government spending than tax rates. Deficits went up in the 1930s, the 1980s and in the past two years, and, in all cases, inflation rates fell.

Opponents will say tax cuts benefit the rich; however, across-the-board rate reductions such as those of the Kennedy and Reagan years benefited poor and low-income Americans even more than the rich, because they created new and higher-paying jobs for people most in need.

A tax-rate cut increases economic growth by encouraging more work, saving and productive investment. Reducing high rates is the most cost-effective way to reduce disincentives on productive activity. None of those who so opposed the Reagan cuts now advocate going back to pre-Reagan rates.

We need and can obtain tax simplification and rate reduction, provided we can overcome economic ignorance and demagoguery.

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