Guns, butter and tax code reform

by Jack Kemp

One of this nation's premier journalists (also a friend of long standing) wrote a column last week that can only be labeled as "Bush bashing" writ large. E.J. Dionne Jr. writing in the Washington Post and Investor's Business Daily, wrote the following: "winning the war in Iraq was never the Bush administration's highest priority, saving its tax cuts was more important." Ugh!

E.J., E.J., what's gotten into you, don't you read my columns, haven't you listened to my speeches for the past three decades or so? (People say I talk too much, but how else will they learn!)

One more time Mr. Dionne, and "fellow travelers," Paul Krugman, Bob Rubin and everyone else who makes the claim that Bush cut taxes in the face of a "war."

Everyone please "read these words carefully," Bush didn't cut taxes, he cut tax rates!

Revenues didn't go down, they went up.

The "rich" didn't get "tax relief" at lower rates on income and investments, they are paying more in revenue to the federal (and state) government than ever before in history.

The top 1 percent of people in America pays more than 35 percent of all taxes, even at lower rates on capital gains and dividends. By the way, the proper tax rate on capital gains and dividends would be zero, because the tax on corporate income has already been taken out and you shouldn't tax the same income source more than once. All income should be taxed, but once, not four, five and six times as we do today.

The tax on labor, i.e. primarily payroll taxes, are equally onerous, they should be cut as well, with 6 or 7 percentage points to be allowed to be put into an IRA. This would give workers a much higher rate of return and they would own it.

Back to Iraq and taxes, I actually agreed with Mr. Dionne, who wrote that "it's absurd that the most powerful country in the world finds itself forced to treat our armed forces so shabbily." Right on E.J.! You're exactly right.

His conclusion, however, is wrong, the U.S. is "not willing to pay for a large enough military, so now we are paying for their deficit in logic and courage." E.J. reasons we need to raise taxes on dividends and upper incomes to pay for more troops.

Well, I favor more troops and better armaments, but raising taxes - raising tax rates on incomes more than $250,000 to 300,000 as has been suggested by "the left" - will not raise revenues. It will chase those upper-income taxpayers into tax shelters, or offshore, or both. One more point about "the rich," the top 1 percent earn 15 percent of total income and pay 35 percent of income taxes. Compared to 10 years ago "the rich" are paying actually a larger share, not a smaller share of income taxes. As I've said many times, if you want to "soak the rich" lower the tax rates to 20 or 25 percent where there is absolutely no incentive to go offshore, go into tax shelters or stop producing income by going on longer holidays.

The president wants to achieve a stable Iraq, as all or most of us do, and that will take more boots on the ground to help pacify Baghdad. But slowing down the economy is just plain counterproductive, counterintuitive and counter to historical evidence. President Kennedy cut tax rates during the Vietnam War and the budget came into balance in 1965. Ronald Reagan cut tax rates during the Cold War and unemployment came down, (as did inflation) while the economy more than doubled in the '80s.

Richard Nixon raised taxes during the Vietnam War, (spreading the sacrifice, E.J. would say) and a recession followed and revenues fell. President Carter raised taxes in the late '70s and revenues went down, not up.

The Bush tax rate reductions have had a positive impact on the U.S. economy by lowering unemployment to 4.6 percent. Since the second half of 2003, the U.S. economy has grown by around 4 percent on an annual basis, added more than 6 million new jobs and added revenues to the federal treasury of over 15 percent per year for three straight years. Why would E.J. Dionne and others want to jeopardize economic growth?

Even though "the left" is enamored by former Treasury Secretary Robert Rubin's advice to raise taxes to lower the deficit, the real answer to this challenge of funding the war, expanding our military and reducing the burden of debt is to reform and simplify the tax code while lowering the tax rate on both labor and capital while cutting rate of growth in government spending.

John F. Kennedy said in 1961, "the purpose of cutting tax rates is to achieve a more prosperous, expanding economy ... and the soundest way to raise revenues in the long run is to cut the tax rates now." He did, and those who ignore the empirical evidence of the last 60 years are threatening the growth of our economy and putting the poor in harms way.

Â© Copley News Service

Guns, butter and tax code reform by Jack Kemp