Taxes, Jobs, and the Economy

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I want to begin by telling you that I am not a spokesperson, official or otherwise, for President Bush or the Republican party. I have advised President Bush on economic policy, but not in this campaign. And in the past, I have worked for both Democrat and Republican administrations, specifically the Kennedy and Reagan administrations.

I am here because I believe this is a critical election, an election in which the American people are going to choose between two conceptions of government, two very different ideas of the role of individuals and the state. That choice is between those like me, and I hope you, who believe that, as much as possible, people should be free to choose for themselves, not be dictated to or restricted by a federal government with one-size-must-fit-all policies in a command and control system.

I will illustrate how that difference affects major policies in this campaign by comparing the programs offered by President Bush and Senator Kerry for taxes, jobs, education, health care and social security.
The Economy and Jobs

Let me turn first to the economy, to jobs, and prospects for future jobs. Senator Kerry compares our current circumstances to the Great Depression of the 1930s, comparing President Bush to President Hoover.

How misleading can one be? In the winter of 1932-33, when President Hoover left office, ¼ of the workforce was without jobs and, in that era, they had no unemployment compensation or other public support for the unemployed. Another large segment shared their jobs to reduce the burden on their fellow workers.

Today the unemployment rate is 5.3%, not 25%. That’s the same as in 1996, when President Clinton ran for re-election, and it’s very close to full employment.

That doesn’t mean that there are not problems. As people in Ohio, Michigan and South Carolina know well, our economy is in transition from the industries that provided many of their jobs to industries that will provide the jobs of the future. We have been through transitions of this kind many times, so we have ample reason to believe that the outcome will be good jobs at rising living standards.

Many of you will recall that the “rust belt” of the 1980s was followed by new growth and higher living standards. People in New England and California suffered through the transition at the end of the Vietnam War and later the cold war. Today those regions share fully in the current prosperity.
That is not a “wait and hope” strategy. The Federal government can speed the transition by pushing the economy toward growth and high employment. President Bush and Congress have done just that. There have been 3 tax cuts in 3 years.

At first, responding to the recession, President Bush urged tax reduction and a tax refund for all taxpayers. This slowed the decline in spending and prevented much of the loss of employment that a deep recession would bring.

If we look at investment, corporate profits or stock prices in 2001, we see a very deep recession. If we look at the level of unemployment, we see a relatively mild recession.

Although employment has increased steadily for more than a year, job growth lagged, especially until a year ago, compared to earlier recoveries.

The principal reason is that despite the deep recession in investment, consumer spending remained strong. The Bush tax cuts and low interest rates helped to sustain consumer spending during the recession. We had a boom in new car sales and in housing—both industries that sustain employment. At the worst of the recession, employment was more than 1.2 million jobs stronger than an average of the 5 previous recessions.
Taxation

Why did this happen? The Bush tax cuts and low interest rates maintained spending.

The more serious problem was business investment. The Bush administration offered many incentives to increase investment, including tax reduction.

Senator Kerry sees these tax cuts as benefits for the rich—for those with high incomes. This is economic nonsense. Perhaps Senator Kerry or Mr. Altman tucked their tax cut under their mattresses. Perhaps Mr. Altman will tell us what he did. The rest of us either spent it or put it in the stock market, the bond market or the bank where it worked to maintain lower interest rates including zero interest rate loans on new car sales, low mortgage rates for home buyers and for investment in new capital. These activities create jobs.

I have been watching economic data for almost 50 years. Let me assure you that the anti-recession policy in the 2001 recession is one of the most aggressive of all times. That did not eliminate the transition problem in states like Ohio, Michigan and South Carolina but it made the transition less painful.

Speaking of the upper income groups, and the tax cut they received, and Senator Kerry never tires of speaking about them, let me offer some perspective. The top 10% of income earners pay two-thirds of all income taxes and about half of all federal taxes, according to the
unbiased, neutral Congressional Budget Office. The top 1 percent of all taxpayers pay almost 1/3 of all income taxes. The lowest 20% of income earners pay no income tax at all; they receive net payments from—that’s from—the federal government. The next 20% of income earners pay no net tax as a group. That’s 40% of the income earners who pay no tax. They don’t get tax reduction directly because they don’t pay income tax. And even that is an overstatement because the Bush tax cuts removed many low-income people from the tax rolls.

Senator Kerry campaigns to raise tax rates on high incomes so he can use the money for projects he thinks are worthwhile. President Bush took the very constructive step of reducing tax rates to stimulate investment and effort because investment creates high productivity jobs. And higher productivity is the only way known to man that generates the increases in living standards and well being that have made us all able to enjoy our high living standard.

Whether we turn to taxes, to social security to health care, or to education, we find a sharp contrast between the two candidates. President Bush favors “no child left behind,” a program that introduces parental choice into federal education programs for the first time. Senator Kerry supports the teacher’s union monopoly over educational policy. They choose, not you. President Bush proposes choice that permits, but does not require, individuals to invest a small part of their social security taxes as they choose (within guidelines). Senator Kerry
opposes allowing private choice, even limited private choice. He calls for higher social security taxes for everyone earning from $88 to $120,000. For someone with a salary of $110,000, that would mean $2740 of additional tax. And that is a tax on effort.

The Bush proposal builds on the very successful experience in Chile, and Great Britain. It follows the path of privatization now taken by Russia—yes Russia—and considered by China. Senator Kerry wants to resolve the long-term social security problem by higher taxes. Alan Greenspan, the Congressional Budget Office, the International Monetary Fund, and virtually everyone who has considered agrees that we cannot solve the long-term problem by increasing taxes.

What is true of education and social security is true of health care too. President Bush proposes more choice, Senator Kerry more command and control by government.

Let me close with an observation from the great British statesman Winston Churchill. Churchill explained why Senator Kerry’s proposals would fail. He said, “for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to pull himself up by the handle.”

Thank you