

# OpinionJournal

from THE WALL STREET JOURNAL *Editorial Page*

## Dems Want You to Take a Hike

The hottest domestic issue of the next two years: taxes.

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Thursday, May 24, 2007 12:01 a.m. EDT

The hottest domestic political issue of the coming two years will be federal income taxes.

The Democratic Party is for a big tax increase, via repeal of the Bush tax cuts. Its three major presidential candidates are for it (Hillary Clinton and John Edwards voted against the 2003 Bush tax cuts and Barack Obama against their extension). House Speaker Nancy Pelosi and Senate Majority Leader Harry Reid are for it. Bill Clinton is for it because he believes the 2003 Bush tax cuts were "way too big to avoid serious harm." And the party's newspaper, the New York Times, is for it, stating that the 2003 tax cuts were "economically unsound" and would "increase the deficit by hundreds of billions of dollars."

Republicans, arguing that the 2003 tax cuts have helped the economy grow, created jobs, increased federal tax revenues, and thus reduced federal deficits,

are mostly against raising tax rates.

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So what are the facts? Did the tax rate reductions of the Bush administration spur or diminish economic growth? Grow or diminish federal tax revenues? Were they good or bad economic policy?

Economic indicators show that since the 2003 tax cuts the GDP has grown an inflation-adjusted average of 3.3% a year, and eight million new jobs have been created over 44 consecutive months of job growth. Unemployment has fallen 25%, from 6.1% to 4.5%, with strong declines across all ethnic groups. Productivity growth has expanded 2.8% a year since 2001, outstripping the past three decades' average. So according to all these economic indices, the 2003 tax cuts have strengthened the American economy.

The tax cuts have also produced substantial tax revenue increases--14.5%

growth in 2005 and 11.7% in 2006. For the first seven months of the current fiscal year, total revenues were up 11.3% over last year, and individual income tax receipts were up by 17.5%. Total tax receipts in April were \$70 billion higher than in April 2006.

The Congressional Budget Office and the Congressional Joint Tax Commission estimated that a reduction in the capital gains rate to 15% from 20%, which was passed in 2003, would cost the U.S. Treasury some \$5.4 billion over three years. But actual revenues exceeded expectations by \$133 billion, so the government profited substantially from our strong economy and the tax rate reduction. In fact, the tax cuts have actually expanded revenues as a percentage of gross domestic product. Over the past 40 years, federal tax receipts have accounted for 18.3% of GDP. That figure was 18.4% in 2006, and the CBO projects it at 18.6% in the current fiscal year.

These revenue increases have also had a positive impact on the federal deficit. Since the 2003 tax cuts the deficit has declined from \$413 billion (3.5% of GDP) in fiscal 2004, to \$318 billion in 2005, then \$248 billion in 2006, and an estimated \$150 billion to

\$200 billion (1.1% to 1.5% of GDP) in the current fiscal year.

Lower tax rates have also produced another important economic change: fewer and shorter recessions. As economist Brian Westbury noted in the Wall Street Journal last month, in "the high-tax, highly regulated years between 1969 and 1982 the economy was in recession 32% of the time. Since then, following Ronald Reagan's tax cuts, and deregulation . . . the U.S. economy has only been in recession 5% of the time."

So Bill Clinton and the New York Times have it backwards; there was serious economic improvement, rather than harm, produced by the tax cuts, and the deficit decreased rather than increased. The truth is that tax rate reductions have been good for the American economy and the American people.



With these facts in front of it, what does the new Democratic Congressional majority plan to do? Why, of course, *raise* income tax rates so that they can expand the size, scope, and reach of government, never mind that tax increases will slow the economy and reduce job growth. The Pelosi-Reid majority plans to do it now, and it will surely be done again if there is a liberal Democrat in the

White House two years from now.

If House Ways and Means Committee Chairman Charles Rangel has his way, the Congress will increase taxes on the wealthy and enact tax reductions for the middle class by raising the threshold for taxpayers subject to the alternative minimum tax.

The AMT was enacted in 1969 to raise taxes on the wealthiest people, but since it was not indexed to inflation it impacts a large group of middle class families. While only 100 or so wealthy people were affected in its first year, three million people were within the scope of the AMT in 2006, and unless Congress does something, 25 million may be liable this year. Mr. Rangel's plan would exempt families making less than \$250,000 per year (98% of taxpayers) from the AMT

But that would be expensive--reducing revenues by around \$50 billion a year, according to an analysis by the Tax Policy Center. Under the House "pay as you go" rule, tax cuts must be "paid for" by other tax increases or spending cuts, so if the Congress were running \$50 billion annual shortfalls as a result of the Rangel tax cuts, where would the money to balance the budget come from? From the top 2% of taxpayers. Mr. Rangel proposes to raise the top AMT rate for those making more than

\$500,000 to 31.5% from 28%, and the capital gains and dividend rates for people subject to the AMT to 31.5% from 15%.

Mr. Rangel has economic policy backward. Instead of looking for higher tax rates to raise the money to pay for some AMT elimination and add and expand government programs, it would be better to reduce spending to cover the necessary \$50 billion per year--less than 2% of the federal government's nearly \$3 trillion in annual spending.

Imposing punishing tax rates to fund increased spending would suffocate investment and ultimately slow the cash machine that provides the needed federal revenues. With such a tax policy American people of every economic strata will no longer enjoy the benefits of an expanding economy, because that economy will be slowly spiraling into decline.

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