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George F. Will: Democrats, don't pass the SALT

George F. Will

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President Joe Biden delivers a speech on infrastructure spending at Carpenters Pittsburgh Training Center on Wednesday in Pittsburgh.

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WASHINGTON — Now comes the pesky question of how to pay for the progressive agenda. Or, more precisely, how to pay the huge price of the minority portion of the agenda's cost that will be financed by taxes rather than money-creation or borrowing. Borrowing means future generations pay, but as has been said down the ages, what has posterity ever done for us?

The tedious fact is that there are only two ways to finance a government, present taxes and future taxes (counting the stealthy tax of inflation). Debt is taxation deferred.

Infrastructure — *very* broadly defined — is Washington's subject du jour. As currently bandied, the noun denotes much more than what normal speakers of the English language mean by infrastructure — roads, bridges, etc. Abnormal English speakers, of whom there always are many in government, use semantic slipperiness to impart momentum to their preferences. Hence the Biden administration's fondness for the phrase "human infrastructure." This denotes anything that might conceivably do what concrete-and-steel infrastructure does — improve productivity. "Human infrastructure" includes day care, pre-K education, free community college, paid family and medical leave, combating climate change, augmenting "equity," and anything else that could conceivably have positive knock-on effects.

President Biden's capacious infrastructure idea is expensive. The crux of his plan to actually pay for a fraction of it is to increase the corporate tax rate from 21% to 28%. Before Congress in 2017 cut the rate from 35%, it was the developed world's highest. Barack Obama favored cutting it.

People can reasonably disagree about the proper amount of corporate taxation. Wise people favor a corporate tax rate of zero because corporations do not pay taxes. They collect them, and distribute the burdens between employees (less money for compensation), shareholders (lower dividends and capital gains, which are, effectively, subject to corporate taxation), and customers (higher prices). The Cato Institute's Scott Lincicome cites a 2020 study showing that the corporate tax's "incidence on consumers, workers and shareholders is 31%, 38% and 31%, respectively." Few of those who actually will pay Biden's corporate tax increase have annual incomes of $400,000.

Writing in City Journal, economic historian John Steele Gordon says William Howard Taft assumed that the 1913 ratification of the 16th Amendment, (enabling taxation of individuals' incomes) a month before his presidency ended, would lead to the abolition of the corporate tax. Silly him. A Democratic Congress aligned with Taft's successor, the progressive Woodrow Wilson, raised the corporate tax.

Gordon argues that abolition of corporate taxation would eliminate much of the approximately 3.9-million-word tax code. This would, however, dismay the political class, which practices crony capitalism by conferring indirect subsidies on corporations in the form of tax abatements. Today, Gordon writes, corporate managers focus on after-tax profits, which is a stock market fixation, and “an artifact of lobbying success in Washington.” With no corporate taxation, profits would rise, as would dividends, which are taxed. And foreign companies would rush to invest here.

Instead, in order to get enough House Democrats to support the foolishness of increased corporate taxation, the Biden administration might have to endorse repealing something intelligent from 2017. Republicans then imposed a $10,000 cap on deductions of state and local taxes (SALT) by individuals filing their federal income taxes. An uncapped SALT deduction would almost entirely benefit very wealthy taxpayers in high-tax states and cities, and subsidize the growth of state and local governments by somewhat reducing resistance to their taxes.

For 90 years, the Democratic Party has been devoted to government growth, and is increasingly the party of the wealthy. Repeal of the SALT deduction cap would give those in the bottom half of income distribution a tax cut of, on average, at most $1, but an average tax cut of $23,500 for the top 1%, and $145,000 for the top 0.1%. The average middle-class family would get about $27.

Assume unanimous House Republican opposition to increased corporate taxation. Democrats have only an eight-seat House majority. Already four Democrats have made their support for the infrastructure taxation package conditional on repeal of the SALT cap. There probably will be others. Preaching progressivism — deploring the cupidity of rich, denouncing tax cuts for them — is more exhilarating than practicing it.