

# Is There a Conservative Case for Higher Taxes?

by Steven Hayward | July 5, 2011 5:57 am

No doubt this will set off an explosion of indignation, but my answer to the question posed here is—Yes. (I can hear it now: *What! Are you trying to get yourself kicked off Power Line?*)

Maybe it will help if I qualify this by saying that I think taxes should be raised sharply on the middle class and the poor, many of whom currently pay almost no federal income tax at all, while cutting the capital gains tax, the corporate income tax, and the highest marginal income tax rates. Feel a little better? I thought not.

But here's the case: one problem with our current tax policy is that at the moment the American people as a whole are receiving a dollar of government for the price of only 60 cents. (I don't say a "dollar's *worth* of government," but let's leave that snark for another time.)

Any time you can get a dollar of something at a 40 percent discount, you are going to demand more of it. My theory is simple: if the broad middle class of Americans are made to pay for all of the government they get, they may well start to demand less of it, quickly.

There's corollary point to this. Back in the Reagan years, there was a vigorous internal debate about whether to resist tax increases because "starving the beast" would hold down spending. But evidence is now in: this strategy doesn't work. My witness on this point is the Cato Institute's chairman, William Niskanen (who was chairman of Reagan's Council of Economic Advisers at one point, and a person whose libertarian credentials are hard to beat). Niskanen noted this striking finding [1] in a *Cato Policy Report* a while ago:

*In a professional paper published in 2002, I presented evidence that the relative level of federal spending over the period 1981 through 2000 was coincident with the relative level of the federal tax burden in the opposite direction; in other words, there was a strong negative relation between the relative level of federal spending and tax revenues. Controlling for the unemployment rate, federal spending increased by about one-half percent of GDP for each one percentage point decline in the relative level of federal tax revenues. . . One implication of this relation is that a tax increase may be the most effective policy to reduce the relative level of federal spending.*

Other economists have reached the same conclusion [2]. In other words, if you want to limit government spending, instead of starving the beast, *serve the check*. (Well, I can hear everyone now, *there's goes your invitation to Grover Norquist's Wednesday meetings!* True that.) Right now the anti-tax bias of the right has the effect of shifting costs onto future generations who do not vote in today's elections, and enables liberals to defend against spending restraints very cheaply. Time to end the free ride.

A debate on how to raise taxes might actually be fun to have with liberals, because their only idea—eat tax the rich—doesn't produce anywhere near enough revenue to fund their programs. Of course, the "tax the rich" slogan is just a cover so they can raise taxes on everyone, but why not smoke them out on this by agreeing?

But more to the point, the argument should be cast in terms of a creating pro-growth tax reform. Froma Harrop of the *Providence Journal* has a typically idiotic column [3] out today saying Americans *want* higher taxes. It is not even worth the bother of debunking. There is one highly useable sentence in it: "Today, high-tax Sweden has only 7 percent unemployment, while ours is 9 percent. How come? Before the 2008 economic meltdown, Sweden prudently maintained a budget surplus equal to 3.6 percent of its economy." Never mind that Sweden isn't exactly putting its shoulder to the wheel in the fight against terrorists (or anything else), and just focus your mind on one fact: yes, it is a high tax country, but its corporate income tax rate is one-third lower than the U.S. rate (26% for Sweden; 39% for the U.S.). So, my opening bid is—yes. By all means let's emulate Sweden's tax rates, starting with a one-third cut in our corporate income tax rate, and a hike in middle class income tax rates. Deal? I didn't think so.

## Endnotes

1. this striking finding: <http://www.cato-at-liberty.org/starve-the-beast-just-does-not-work/>
2. Other economists have reached the same conclusion: <http://www.nber.org/papers/w13548.pdf>
3. typically idiotic column: [http://www.realclearpolitics.com/articles/2011/07/05/the\\_people\\_want\\_higher\\_taxes\\_110452.html](http://www.realclearpolitics.com/articles/2011/07/05/the_people_want_higher_taxes_110452.html)

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