The Rise and Fall of Taxes
Author(s): Jude Wanniski
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eliminate the federal deficit. The best way would be to continue to broaden the base of the income taxes by eliminating tax favors that remain in the law. Some examples are the exemption of capital gains transferred at gift or death, numerous fringe benefits that are not taxable to employees, excessive tax benefits of home owners, and the exclusion of all Medicare benefits and part of social security benefits from the tax base.

As a practical matter, it's clear that income and excise tax reform will not provide enough revenue to balance the federal budget. The additional revenue could be obtained by increasing the income tax rates, both corporate and individual. Even a modest increase in these rates, say, a flat 3 percentage points across the board, would raise $100 billion in fiscal year 1994. Such an increase would keep the top rates at very low levels by international standards. We certainly don't need a regressive sales tax or value-added tax, which some have suggested, to raise the needed revenue.

Joseph A. Pechman
Senior Fellow Emeritus
The Brookings Institution

The Rise and Fall of Taxes

Serious economists and economic historiographers cannot at this point ignore the implications of the Laffer Curve, i.e. the application of the axiomatic law of diminishing returns to tax policy. The concept of taxes rising while tax rates fall, or vice versa, makes it more difficult to interpret economic history, but this refinement will be a challenge to our young historians. I have no doubt that world history books in the 21st century will be different from those that have served thus far. The "sweeping revision of economic thought" initiated by John Maynard Keynes, as Ms. Webber correctly states, will be revised once again.

The variables are even more difficult to juggle in recasting, say, the rise and fall of Rome, or the rise and fall of the British Empire. Consider that if tax rates on labor are zero, and confiscatory on capital, there is no production, and if tax rates are zero on capital, and confiscatory on labor, there is no production. No historian, none, has carried that thought in examining the ebb and flow of political economies. We can learn nothing from a historian who reports that President Coolidge, say, cut "taxes on the rich." Did he cut rates, or revenues? Did he cut rates or revenues from the mature rich, or the young, entrepreneurial rich?

Currently, we are debating the capital-gains tax. Will a cut to 15 percent from 32 percent increase national wealth or decrease it? Will the rich pay a higher percentage of total taxes or lower? Will the *Fortune* 500 companies grow more slowly than new enterprises, and as a result pay smaller tax revenues to the common pool? This is what I mean by refinement. If we can't examine the present in this complex framework, how useful is it to examine the past in the crude analytical framework that has been traditional among historians?

Today's historians, for example, credit Mussolini's political success with his industrial-planning policies, which we call fascism. I credit the supply-side tax and monetary policies of his finance minister, Alberto de Stefani. Historians credit Adolf Hitler's Third Reich economic success with his "Keynesian" public works and rearmament spending policies. Nonsense, I say. It was the supply-side tax and tariff policies of his finance minister, Hjalmar Schacht.

The *Wilson Quarterly*'s historical reconnaissance strains to examine history in the demand-model that has been a keystone of modern thinking on the nature of political economy. It would be more useful if it broke those bonds and looked at the world anew in light of President Reagan's supply-side revolution.

Jude Wanniski
President, Polyconomics, Inc.
Morristown, N.J.

Paving Over History

Part of Washington, D.C.'s identity problem ["The Other Washington," *WQ*, New Year's '89] is homegrown, I believe. There are historians, myself included, who have observed and written about acts of the locally elected government which perpetuate and strengthen muddled perceptions of hometown Washington, D.C.

For example, Rhodes Tavern stood for 185 years one block from the White House. As Washington's first town hall, this National Register of Historic Places landmark, cited in local history texts used in the D.C. public schools, was the site of citizens meetings in 1801 protesting "taxation and rule by a legislature [Congress] in which we have no representation." Events associated with Rhodes Tavern effectively refuted the prevailing view of many commentators that agitation for voting rights by those residing in the nation's capital has occurred only since the 1960s when African-Americans became a majority in Washington, D.C.

Yet, despite an initiative vote of citizens to preserve this singular landmark of "the other Washington," the locally elected government sided in 1984 with developers, including the Equitable Life Assurance Society, headquartered in New York

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