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Ardavan Mobasheri: A forward look at the consequences of tax reform

Ronald Reagan made Williamsburg the first stop in his campaign for a tax-reform package, on May 30, 1985.

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To the credit of the president and Congress, a campaign pledge to reduce taxes was achieved days before the Times Square crystal ball ushered in 2018. Statutory corporate tax rates were reduced, as were individual income taxes, albeit marginally.

Part of these cuts, and we emphasize part, were financed by a reduction in eligible deductions, primarily for people in high-tax states, and for corporations.

Keeping our fingers crossed and hoping that we avoid a recession at anytime in the next 10 years, the cuts should cost our children and grand-children around $1.5 trillion.

The plan’s sponsors, supporters, and promotors argue that a lower corporate tax is going to significantly increase American competitiveness, create jobs, and increase wages. For this group, economic growth rates exceeding 3 percent is the oft-quoted rate that can be achieved from such cuts. And the most-often-referenced historical examples provided are the Reagan tax cuts of the 1980s.

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Whether one can credit the Reagan tax cuts as the sole or even the primary reason for the prosperity that was achieved in the '80s is well beyond this commentary, but there is no question that the tax cuts and subsequent reforms did play a part in achieving some of the successes that President Reagan and his economic team set out to achieve.

The late commentator Robert Novak once said, "God put the Republican Party on Earth to cut taxes. If they don't do that, they have no useful function."

The GOP certainly lived up to its promises this time around. But can we (or should we) take the outcome from the '80s and extrapolate it so that we create an orthodox view of tax cuts — the way the GOP has done ever since the '80s?

No, of course not. And therein lies a lesson for Gov. Ralph Northam and his team of economic advisors.

A good football coach who just came off of a major victory by having his quarterback throw for 500 yards and five touchdowns is going think twice about having the passing game dominate every single game afterwards, especially against opponents with great pass defenses. "To everything, turn, turn, turn, there is a reason turn, turn, turn. And a time for every purpose, under heaven."

To equate the U.S. economy of the 1970s to that of 2017 and prescribe the same medicine simply because it worked the last time around — without a deeper understanding of what may or may not ail the economy today — is simply gambling with the tax dollars of future generations.

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The U.S. economy of the late '70s suffered from low corporate profits, which had many causes: an economy ill-prepared structurally for the deregulation that was being introduced at the time (including in the financial sector); high oil prices; floating exchange rates; and fiat money.

Inability and inexperience in navigating this new world order prevented sufficient investments from being made. Despite relatively healthy growth in jobs and strong utilization rates of factories and office space, unemployment was high.

The lack of confidence stemming from low profitability prevented an expansion strong enough to create enough jobs for the millions of baby boomers and women entering the labor force. High inflation and the lack of indexation of corporate taxes meant higher and higher tax revenue for the U. S. Treasury but for all the wrong reasons.

Increasing profitability and returns on capital were the necessary outcome needed for confidence to return and for investments to be made — and hiring to be sufficient. Lower taxes, it was generally agreed, would be the proper prescription. In fact, the primary debate at the time was about to what degree and how widespread the cuts should be.

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The U.S. corporate sector is not suffering poor profitability today and confidence is not low — nor has it been for a long time. Inflation is not high, and neither is the unemployment rate.

We are not suffering from a lack of jobs, we are suffering from a lack of skills. Our competitiveness and level of investment are not negatively impacted by too much regulation and taxes. Instead, they are suffering from low productivity.

During the election campaign, Governor Northam countered his opponent's argument that lower taxes work every time, everywhere, and for everyone.

What Virginians and their employers large and small need are not marginally lower taxes — which in most instances as proposed are meaningless and small. What they need the most are proposals and legislation that set a solid foundation for future productivity growth and global competitiveness — and which start with building and investing in a large qualified, educated, and skilled labor force for the next eight decades of the 21st century.

http://www.richmond.com/opinion/their-opinion/guest-columnists/ardavan-mobasheri-a-forward-look-at-the-consequences-of-tax/article_8564aa3f-0402-5551-903b-b1ef107e4fa7.html

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