



Insight

Conservatives 1, Progressives 0

DOUGLAS HOLTZ-EAKIN | JANUARY 3, 2013

Conservatives have lost the messaging battle on taxes. The public has bought into the notion that they exclusively care about keeping taxes on the rich low (at the expense of the middle class) and that the growth effects of disguised spending (tax credits) are the same as marginal rate reductions.

But stepping back to survey the larger picture, it looks like conservatives have won the war.

Beginning with Ronald Reagan's Economic Recovery Tax Act, conservatives have waged a 30-year war over low tax rates. Consider that in 1979, a couple with \$5,500 in annual taxable income faced a marginal tax rate of 14 percent, while a couple today earning the same amount (\$16,507 in 2012 dollars) has a marginal rate of 10 percent. A 1979 middle-class couple earning \$20,200 (currently \$60,626) saw its marginal rate drop from 21 to 15 percent. And a couple making \$160,000 in 2012 would have faced a marginal rate of 49 percent in 1979; it's now down to 28 percent. And, of course, the top rate in 1979 was 70 percent. It may be too high now (43.4 percent including the ACA taxes), but it is nowhere near where it was three decades ago.

The fiscal-cliff deal makes the 2001–2003 tax laws permanent for 98 percent of taxpayers, patches the AMT permanently, and makes clear that both sides of the aisle have embraced the virtues of lower taxes.

That is not to say that all is perfect. The tax code remains in need of a fundamental overhaul to improve its international [competitiveness](#) (a lower corporate rate and a move to a territorial tax system), growth incentives, and the appearance of [fairness](#). And the messaging in favor of pro-growth tax policy is in bad need of refurbishment.

But the basic point is simple: Despite all the rhetoric, the entire political spectrum now embraces vastly better tax policy than was the case in the recent past.

Now, it is time to wage the next war: entitlement spending.

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