Insight

# Pro-Growth Tax Policy, Please!

DOUGLAS HOLTZ-EAKIN | JUNE 23, 2010

The anti-growth slant of Obama Administration policy has been clear for a long time. (See, for example, Tax Treatment of Carried Interest) But yesterday Manufacturer's Alliance/MAPI put the impact in stark relief in: "A Closer Look at the Business Tax Burden: C-Corps, S-Corps, and the Impact of the Federal Budget's 2011 Tax Proposals" by Jeremy Leonard.

It's worth a look. The paper does a fine job at a number of distinct things:

- A brief history of tax policy toward various business organizational forms
- A brief exposition of the virtues of integrating the corporate and individual income taxes.
- A statistical portrait of pass-thru entities.
- An assessment of the impact of the tax proposals on alternative organizational forms.
- A macroeconomic analysis of the budget proposals versus the Wyden-Gregg proposal.

The latter is especially interesting, as it shows that a less-than-full-throated reform such as Wyden-Gregg improves growth, while the Administration clearly worsens it.

Tax policy is about more than raising revenue – indeed even a very bad system can raise revenue. A tax code should be about something – it should reveal values. I believe that at this point in history growth is the imperative. As a Nation we have lost our commitment to growth.

- After the 1974 recession, it took 9 months to restore all the lost jobs.
- After the deep 1980-81 recession, it took 1 year to restore all the lost jobs.
- In 2001 we had a "jobless recovery" and now again we do NOT have growth sufficient to employ Americans. A recent Chicago Federal Reserve Bank study shows that the labor market is tracking historical relationships between jobs and growth. The problem is nothing more complicated than too little growth.
- There will be no tax credit, no unemployment benefit, that will substitute for growth and jobs.

At this juncture growth must trump other tax-related goals like social engineering, redistribution, and corporate special favors. We need a relentless focus on growth.