



Iowa Research Online
The University of Iowa's Institutional Repository

College of Law Publications

4-1-1995

We Like Ike: Budget-Balancing with Eisenhower-Era Progressive Taxation

Marc Linder

University of Iowa College of Law

Mr. X

Gail Hollander

© 1995 Marc Linder

3 *Class Issue* 1 (1995), 2 pages.

Comments

Republished in *Political Action Update* 95:21 (June 9, 1995), p. 1-2.

Hosted by Iowa Research Online. For more information please contact: lib-ir@uiowa.edu.

We Like Ike: Budget-Balancing with Eisenhower-Era Progressive Taxation

By Marc Linder and Mr. X, with the assistance of Gail Hollander

Balancing the federal budget has suddenly monopolized political debate. This issue has become so urgent that even nutrition programs for the poor are cut on the grounds that inadequate nutrition now is a lesser evil than the burden of government debt on these same children later. Despite the overblown rhetoric of the balanced-budget stampede, one solution has remained off-limits: tax increases for those who can afford them. Yet a return to income tax rates of the 1950s, just for corporations and those with annual incomes of over \$100,000, could, according to our calculations, increase annual federal revenues by \$150 billion and make it possible to preserve the safety net.

Given this possibility, why doesn't Congress raise taxes for those who can well afford Eisenhower-era rates? Perhaps because the agenda of the Right is not so much budget-balancing as protecting the wealth of its economic patrons? Or perhaps because the majority in Congress wants to increase the power of corporations by eliminating the countervailing restraints of government.

Lessons from the golden era

What can we learn from the golden days of post-World War II Republican normalcy? In 1954, the Korean War was over and the United States was the undisputed world power. With both houses of Congress under Republican control, President Dwight D. Eisenhower explained in his budget message that an overhaul of the Internal Revenue Code was needed to "restore

normal incentives for sustained production and economic growth." Democrats responded that the Republicans as "the party of the big shots [with] no sympathy for the laboring man" had drafted a measure "loaded in favor of the wealthy."

So what tax relief did the Republicans provide their wealthy constituents in 1954? They rolled back the highest marginal tax rate all the way from 92 to 91 percent and maintained the corporate rate at 52 percent. The effective tax rate (income tax, after credits, as a share of taxable income,

earning more than \$100,000 and an additional \$70 to \$75 billion could come from applying that year's corporate tax rate to today's corporate incomes.

...no one believes that higher taxes on the rich dampened their work ethic in the 1950s.

Since tax rates even within the highest 1954 levels were progressive, the impact of restoring 1954 rates (on incomes adjusted for inflation) would be small on those earning \$100,000 relative to million-dollar earners. Those with incomes of \$100,000 would pay only an additional \$1,900 a year compared with an added \$169,000 from those with a million-dollar income. As in the 1950s, income-millionaires would pay an effective rate of 46.6% instead of the 29.7% they currently pay.

Narrowing the income gap

Bringing back Eisenhower-era progressive tax rates would not only generate the required revenues, but would also help rectify the market's increasingly unequal distribution of income. During the last ten years, the share of total income going to the poorest 20% of households dropped from 4% to 3.6% while the richest 5% saw their share rise from 17% to 20%.

If raising taxes for the rich is such a simple method of balancing the budget, why is there absolutely no discussion of rolling back post-1950s tax cuts? Surely no one believes that higher taxes on the rich dampened their work ethic in the 1950s.

Neither congressional party is proposing an increase in taxes for the richest taxpayers for two reasons. First, the ascendant Republicans, and some Democrats, are less interested in balancing the budget than in enhancing

after exemptions and deductions) on America's wealthiest taxpayers was almost sixty percent higher in 1954 than it is today. If the Republican-dominated 104th Congress returned to its 1950s roots and restored these higher rates on just the wealthiest 3.3 percent of taxpayers, they could raise \$145 to \$150 billion, nearly enough to wipe out the projected 1995 deficit of \$176 billion. Congress could raise \$75 billion by reverting to 1954 rates for individuals

the income and power of their primary constituents--wealthy individuals and businesses.

Weakening government

Second, the conservative answer to the budget deficit, cuts in government spending, also serves the interests of their wealthy backers in another very important way. The Right's agenda includes reducing the role of the federal government. Though espoused on grounds of increasing individual freedom, this program of privatization is actually designed to redistribute power from the government back to private corporations at the expense of those whom government currently seeks to protect from unrestrained corporate power. Limiting federal government regulation of environmental practices and workplace and product safety, for example, will increase the freedom of corporations to make profits while leaving the population unprotected.

But even if the Right rejects tax increases to protect the incomes of the wealthy and to further reduce government and increase the power of corporations, why do liberals and moderates go along?

Dems go along

Since the Reagan tax cuts the Right has successfully promoted the view that government, with the notable exception of the military, is intrinsically incompetent and can't be expected to function responsively or efficiently. Because conservatives are not adverse to witnessing government that works badly, they have little interest in its improvement. Through twelve Reagan-Bush years of continuous defunding, attrition, and government-bashing, all but the most zealous government workers and agencies became demoralized. The cynical efforts of the Right were effective and their expectations became self-fulfilling.

Now, instead of defending the importance of government in regulating and limiting private corporate power, and instead of defending agencies that work well and instead of committing themselves to improved government, Democrats have accepted the ideology of the Right: the best government is the least government.

Having succumbed to the ideological onslaught of the Right, Democrats, whose own New Deal created the modern welfare state, are now afraid even to support the provision of the public goods and services that are necessary for any civilized industrial society.