TO THE EDITOR:

I was puzzled by Rob Norton's observation (Second Quarter 2001) that Reagan "succeeded in pushing through a major tax cut – restraining the growth of federal revenues...." From 1983 to 1988, individual income tax receipts rose by $115 billion. Is Norton arguing that revenue growth would have been greater had there been no rate cut in 1981?

Then we are told that, circa 1999, "the Republicans were now against the idea of letting budget surpluses accumulate, because to do so forestalled the possibility of cutting taxes." My recollection is that conservatives opposed letting surpluses accumulate because the Democrats (and some Republicans) would spend the surpluses on ever-bigger government. Surpluses ought to be an excellent argument for cutting taxes. (As for instance, now.) It was a lot tougher selling the 1981 rate cuts in the face of a rising deficit.

Finally, Norton tells us that the George W. Bush administration "has proposed a tax cut that would devote nearly all of the surpluses over the next decade for reducing taxes." The projected surplus is $5.6 trillion over 10 years. Bush proposed a (supposedly) revenue-reducing tax cut of $1.6 trillion (28 percent) over that period. How does Norton get "nearly all" out of 28 percent?

John McClaughry, President
Ethan Allen Institute, Concord, Vermont

The writer was senior policy advisor in the Reagan White House.

ROB NORTON REPLIES:

Taking the points in order. Yes, I'm arguing that federal revenue would have grown more in the absence of the 1981 tax cut. And I don't think there's much counter-argument, except from the most dogmatic supply-siders, who believe that tax cuts are inevitably self-financing. The facts support my view: from 1971 to 1981, total federal receipts, adjusted for inflation, increased at an annual compound rate of 3.6 percent; personal income tax receipts at a rate of 4.0 percent. From 1981 to 1991, total federal receipts increased at an annual rate of 1.6 percent; personal income tax receipts at a rate of 0.9 percent.

On the second point, if conservatives opposed letting surpluses accumulate to forestall spending on bigger government, the only way to accomplish their goal was to call for tax cuts, and if the surpluses did accumulate, there would be no tax cuts. So which came first, the chicken or the egg?

Finally, the projected surplus is indeed $5.6 trillion over 10 years, but unfortunately that gross amount is not available for tax cuts or for anything else. According to the Congressional Budget Office, the projected total surplus for 2002 through 2011 is $5.6 trillion. But $2.5 trillion of that is earmarked for Social Security and $400 billion for Medicare, leaving an "available on-budget surplus" of $2.7 trillion. Subtract the sums needed to keep spending constant as a share of GDP and you're left with $1.7 trillion. Subtract the effect of fixing the alternative minimum tax and the cost of renewing existing tax breaks set to expire, and the available surplus is $1.3 trillion.