All want to grow the economy, the question is how to do it

Apart from the impact the tax cuts that are being debated in Congress will have on individual farmers, these cuts will have likely the effect of reducing the amount of money available to Congress in its work in designing the 2018 (or later) Farm Bill.

If crop and livestock prices are high, the task will be somewhat manageable, but if we have halfway decent weather in the spring and farmers are able to plant the expected acreage, prices will fall and the Congressional agricultural committees will face a Herculean task.

One of the complaints being made is that even though it was promoted as a middle-class tax break, the proposed legislation has ended up primarily providing significant tax breaks for corporations and the top 1 percent of earners.

There are competing ways that Congress can try to stimulate the economy. Congress can reduce corporate taxes and provide tax cuts for the ultra-wealthy in the belief that any money injected into the economy will trickle down and benefit the poor and middle class. Economists call this a supply side stimulus, resting on the premise that the tax cuts will stimulate corporations to increase national output by investing in productivity-enhancing technology, hiring additional employees, and increasing wages.

Another way is to provide a demand side stimulus to the economy by investing in infrastructure projects like building new schools, replacing crumbling bridges in rural and urban areas, improving highways, and making improvements to public facilities like parks. The idea is that as people are hired to work on these projects, they will purchase more goods and services. In turn, companies will hire more people to provide those goods and services, raising total employment. And, with increased employment, wages will increase.

So how do we determine the better way to increase employment and wages for the general population? Is there any evidence to show that one way works better than the other?

In an editorial in the Washington Post, “I’m a Depression historian. The GOP tax bill is straight out of 1929,” Robert S. McElvaine, professor at Millsaps College, provides us with some evidence (https://tinyurl.com/y7q8a7ve).

He begins with a quotation from William Jennings Bryan in his 1896 “Cross of Gold” speech: “There are two ideas of government. There are those who believe that if you will only legislate to make the well-to-do prosperous, their prosperity will leak through on those below. The…[other] idea, however, has been that if you legislate to make the masses prosperous, their prosperity will find its way up through every class which rests upon them.”

McElvaine identifies two tax cuts that were followed by two serious downturns in the economy: the Great Depression and the 2008 Great Recession.

He writes, “In 1926, Calvin Coolidge’s treasury secretary, Andrew Mellon, one of the world’s richest men, pushed through a massive tax cut that would substantially contribute to the causes of the Great Depression. Republican Sen. George Norris of Nebraska said that Mellon himself would reap from the tax bill “a larger personal reduction [in taxes] than the aggregate of practically all the taxpayers in the state of Nebraska.”

The second tax cuts he talks about were those instituted in 2001 along with other policies adopted during the presidency of George W. Bush that resulted in the most serious economic downturn since the Great Depression.
In identifying policies that have resulted in an improved economic outlook, McElvain writes, “In 1932, in the depths of the Great Depression, Franklin D. Roosevelt called for ‘bold, persistent experimentation’ and said: ‘It is common sense to take a method and try it; if it fails, admit it frankly and try another. But above all, try something.’ The contrasting position…then and now is: Take the method and try it. If it fails, deny its failure and try it again. And again. And again.”

He continues, “When Bill Clinton proposed a modest increase in the top marginal tax rate in his 1993 budget, every Republican voted against it. Trickle-down economists proclaimed that it would lead to economic disaster. But the tax increase on the wealthy was followed by one of the greatest periods of prosperity in American history and resulted in a budget surplus.”

With what most economists expect to be a deficit financed tax cut on the horizon, we will see if McElvaine’s observations ring true over the next decade.

Policy Pennings Column 902

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