

## Don't Raise Taxes

June 21, 2021

As the summer of 2021 begins, the heat is rising not only around the country with record setting temperatures, but in Congress with a growing effort to increase taxes on individuals and businesses. The president speaks frequently about his plans to undue the Trump tax cuts and make the rich pay their fair share. Congresspersons are pushing for a wealth tax. The question we should all be asking is: Why? One reason that has decades of longevity is that we must close the budget deficit. When we first started out in this business in 1968, our first economic commentary pointed out the Nixon Administration's concern about the budget deficit! Over the past fifty three years we have had only two occasions when the country had a budget surplus so it is obvious that deficits go hand in hand with a growing economy. Nixon's tax increases to shrink the deficit preceded the 1974 recession and one of the worst stock market declines in history. Clinton's tax increases led to the Republican "Contract with America" which flipped the House and Senate to Republicans in the first mid-term election. Efforts to raise taxes to reduce the budget deficit have not met with great success. So, we ask again, what is the need to close the budget deficit when history demonstrates that such efforts only cause pain for the average American?

The federal government's response to the pandemic was twofold; a massive increase in liquidity as the Fed poured billions of dollars into the economy and a massive spending effort to keep the economy on track through the worst part of the epidemic. Trillions of dollars of budget deficits later, where are we? Well, there is some indication of inflationary pressures triggered by an economy that is quickly returning to normal but the traditional indicators of gloom and doom are not showing signs of hard times ahead. Lumber prices surged then fell back by 40% from the peak recently. Hoarders did that as they did with toilet paper and hand sanitizer early in the pandemic. Gold, the traditional indicator of inflation has been flat to down in price so far this year. The big culprit in recent inflation data has been oil prices but they are only recovering from the collapse of last year. In addition, household wealth is at record levels and consumers are paying down their debt. Why would anyone want to raise taxes in such an environment and put the kibosh on a booming economy? And, anyway, the federal and state governments are seeing a surge in tax revenues as we have written about many times. Why not leave well enough alone?

One important piece of the puzzle is still missing: why would anyone want to raise taxes in such an ebullient environment? In today's world of fiat currencies, the government does not need to tax in order to spend. The past year demonstrates that fact. The federal government prints money so they do not need money from an increase in tax revenues. The purpose of taxes or tax increases is too slow the economy if it appears that growth is too strong. Unfortunately, the drive to raise taxes seems to be more an indication of resentment than of leveling the playing field. Let's hope common sense and historical experience spares us from an economic policy that can only end in hard times.