

Letter

Letter: America has to end its toxic tax debate

From J Paul Horne, Alexandria, VA, US



US protesters demonstrate against the 2017 tax bill about to be passed by a Republican congress on December 19 2017. © Andrew Lichtenstein/Corbis/Getty Images

YESTERDAY

In his Market Insights column “A painful era of ‘spend but don’t tax’ faces investors” ([Opinion](#), September 13) Philip Coggan notes correctly that “central banks bore the brunt of supporting the economy in the 2010s, just as they had in much of the period since 1980” while rightwing politicians cut taxes and complained about deficits. Coggan also noted that lower taxes never correlated with faster growth in gross domestic product or with increased tax revenues.

He might have added that the same conservative politicians succeeded in making taxation a toxic word for many American voters.

Starting in 1965, these politicians have succeeded in reducing the total US tax burden to one of the lowest among OECD countries: 25.5 per cent of gross domestic product, compared with the OECD average of 33.5 per cent, according to 2020 figures.

As tax revenues declined and spending increased, deficits rose, of course, allowing those same politicians to insist on cutting spending on the social safety net — on infrastructure, education and healthcare.

Meanwhile, they pushed such policies knowing the Federal Reserve, the US central bank, would rescue them at times of stress, such as the financial crisis and the pandemic, by reducing interest rates to near zero and ensuring, through the tool of quantitative easing, that Treasury securities issued to finance the deficit would be

quantitative easing, that Treasury securities issued to finance the deficit would be fully taken up (on the secondary market) without tightening financial conditions.

If US politicians had dared increase taxation in line with the growth in GDP and (total factor) productivity, deficits would be far less worrisome than they are today.

And the Fed could better focus on controlling inflation.

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