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Financial FAQs

SUPPLY-SIDE TAX-CUTS DON'T WORK

J.T. Young attempts to use the Treasury Department's study on income mobility to justify supply-side tax cuts ("Two Americas, or One?" in February 4 Barron's) don't work for several good reasons. Firstly, one has only to look at America's (i.e., U.S.) job history since 2001 to see that this has been the most jobless recovery in decades. After the most recent revisions, the job growth rate over this entire business cycle, from March 2001 to December 2007, was 4.2%, compared to job growth of about 20% in each of the last two business cycles. In other words, job creation was exceptionally weak thus far in the 2001 business cycle, a cycle which may well have already peaked.

Secondly, Young would have us believe that "income follows productivity", so that there are only "jobs that require high productivity, from which high wages follow."

Not so. High wages have not followed high productivity in this business cycle, in spite of the supply-side tax cuts that supply-siders want to make permanent. All economists know this. The 14 plus percent increase in productivity since 2000 has raised wages only about 1.5 percent after inflation.

In fact, more jobs do not follow supply-side tax cuts (i.e., non-progressive tax cuts skewed to the wealthiest among us). Long-term unemployment—the share of workers jobless for at least half-a-year—jumped to18.3%, compared to 16.2% one year ago. In fact, the number of long-term unemployed is higher today (1.38 million) than it was in March 2002 (1.33 million), when Congress first enacted extended unemployment compensation after the 2001 recession!

Lastly, the Treasury's report does not give reasons for the continuing income mobility. In fact, Professors Piketty & Saez, two well-known economists cited in the Treasury study, maintain that the rising income inequality we have seen particularly in this decade, is caused by a number factors and taxation policy is not one of them!

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