The New York Times

March 31, 1985, Sunday

FOR THE POPULIST SUPPLY SIDERS

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WASHINGTON

Supply siders come in two varieties—the corporate or elitist sort, who see the present tax code as just fine, and the populists, who rightly see tax fairness, simplicity and lower rates as the central domestic issue of the 1980's.

As the debate over tax reform reheats, the elitists are warning that the bias of tax reform toward individuals and against corporations is anti-supply side and will produce less savings, less investment and an inevitable catastrophe after enactment. Corporate supply siders mistakenly believe that individuals merely consume while corporations alone create economic growth. For them, "capital" precedes "labor"—that is, capital is the driving force in the economy, with the rate of capital formation a near-perfect barometer of prosperity.

Corporate supply siders find little value in lower corporate or individual tax rates, particularly if they come at the expense of accelerated depreciation and the investment tax credit, loopholes that are designed to enrich the present capital structure.

Populist supply siders don't believe capital is unimportant. Their point is that without labor, capital would cease to exist. They believe individuals are essential in the process of economic expansion. Ultimately, in their view, individuals are the economy's producers, savers, investors and innovative risk-takers, as well as consumers. Populists aren't surprised that the Fortune 500 companies have created no net new jobs in the last 15 years. Nor that almost all new jobs are created by young, minuscule firms launched mostly with private savings. For populists, economic growth begins with ideas that are commercialized in a dynamic process that the economist Joseph Schumpeter described as the "creative destruction of capital." This is growth from the bottom up, in which individuals strike out on their own with a good idea, turn it into a successful company and eventually topple established businesses. Thus, the Xerox process drove out the mimeograph, and so on. And this is precisely why populist supply siders support tax reform. Their concern, above all, is to lower individual rates of taxation (which apply to 85 percent of businesses), including the rate on capital gains, to encourage creative destruction. Unlike corporate supply siders, populists would give up some corporate loopholes, as long as corporate rates were lowered to provide greater incentives to growth. In economists' terms, they distinguish between the "incidence" of taxation (the rate of taxation on future income) and its burden (the total taxes paid by corporations in the present). They would even join forces with neo-liberals, who also value the individual's contribution to economic growth. Lest this seem all too abstract, consider the record for both types of taxation. Over the past five years, Britain, Ireland and Sweden, which have virtually eliminated corporate taxes while keeping individual rates high, have had miserable growth rates of less than 1 percent annually. Japan, with its high corporate rates and relatively low rates for most individuals, has enjoyed strong economic growth.

Before the summer is out, President Reagan will have to choose between populist and elitist views of Federal taxation. Those corporate apologists who today assure one another that "tax reform isn't going anywhere" should not underestimate the President's instincts. I predict he will go populist, as he has in the past.

I recall a meeting in early 1980, when Mr. Reagan was setting strategies for his upcoming campaign. At one point, somebody expressed concern that John B. Connally, the former Governor of Texas, and another presidential candidate, was gaining support among corporate chief executive officers, with all the prestige and financial support that that entails. Mr. Reagan said that didn't bother him at all. "Let him have the Fortune 500,'' he said. "I want our campaign to stand for Main Street, not Wall Street. I want us to stand for the worker, the shopkeeper, the entrepreneur and the small-businessman.'' In the end, Ronald Reagan's tax reform will present Congress with a political referendum on special interests. Who really should control tax policy? The Gucci-clad crowd in Washington or the Florsheim folks back home? This question will split the ranks of both parties, along lines less ideological than generational.

This is why the Treasury's tax plan, despite its considerable problems, was a political master stroke. If the plan had drawn immediate cheers from the United States Chamber of Congress, it would have been dead on arrival in Congress.

Instead, it captured the attention of younger Democrats who, because of Republican losses in the House in 1982, are vital to a successful coalition in favor of reform. Sure, the plan needs some changes—the capital- gains rate should be lowered and the depreciation schedule should be exchanged for some form of "expensing," a far simpler and fairer method of encouraging investment. But insiders at the Treasury Department are predicting that the bipartisan coalition—whose leaders will negotiate the final, compromise plan with the Treasury—could sweep the House with more than 300 votes.

My only fear is that the White House might play retail politics. Tax reform involves wholesale politics—mass communication, going over the heads of Congress to the grassroots. Single-shot, "retail" dealmaking with the tax-writing committees would be suicidal, producing a compromise perhaps worse than the present system. Tax reform will prevail if average people know precisely the national cause at stake. To wit: unleash the Great Communicator.

Good economics is good politics, and vice-versa. All the Administration needs is to hang tough. The people will take care of the rest.