# IRET Op Ed

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# Raise Taxes If You Want To Drive The Market Down

The turmoil in the stock market appears to have made President Reagan relent in his opposition to tax increases. If he agrees to any tax increase as a part of a deficit reduction package, he'll not only destroy the last vestige of his program to lighten the heavy and damaging hand of government on the U.S. economy, he'll also add new stumbling blocks in the way of the nation's continuing economic progress.

What is there about the market's crash that the President should see as giving added urgency to budget deficit reduction, let alone tax increases? Surely neither he nor the Congressional leadership believes the nonsense that the Black Mondays were caused by the budget deficit. Surely they don't think that investors woke up Monday morning and, seeing no reduction in the budget deficit, called in sell orders to their brokers. Surely no one believes that computerized portfolio management programs included instructions to sell if the budget deficit weren't cut by a specific date. Surely the President, his advisors, and the Congressional leadership are aware of the fact that the budget deficit had come way down in fiscal 1987. Surely they must disdain the notion that the substantial decline in the market averages since last August were caused by budget developments that were, in any event, highly favorable.

Presumably it's not the market crash itself but the fear that the severe market losses will precipitate a recession that has impelled the President to moderate his stance against tax increases. Even if he believes there is some such connection, one must wonder what line of economic reasoning could persuade him that raising taxes will bolster the economy's defense against recession. In the Keynesian view, tax hikes that aren't offset by spending increases will reduce aggregate demand; this will depress output and employment, saving and investment. Not only will the economy be injured, so will the stock market. In the neoclassical (aka supply-side) view, tax hikes, particularly of the sort contemplated in the Ways and Means and Finance Committee bills, will raise the cost of saving and capital, curtail capital formation, impair labor productivity, reduce employment, output, and income, and further damage investor confidence. Monetarists would agree with the neo-classicists and add that what is really needed is a sufficiently rapid, but not excessively fast, expansion of the money supply to assure continued economic growth.

The real rationale for raising taxes, of course, is to be able to finance higher levels of federal spending than would otherwise be possible, given Gramm-Rudman-Hollings and the embarrassment of being tagged a big spending, budget busting, deficit raiser. President Reagan must know this, and he must know that his agreeing to any tax increase now will simply validate more spending and renewed demands next year for still more tax hikes. He also must know than no tax hike will strengthen the economy and is far likelier to injure it. Even if a tax hike were to bolster the market, which it wouldn't, its damage to the economy and to efforts to bring federal spending under control would be too high a price to pay.

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