

“Spend, Tax, Elect”
by Milton Friedman
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Harry Hopkins, an intimate of FDR, is reputed to have remarked in the late 1930s. “We shall spend and spend, tax and tax, elect and elect.” Whether Hopkins actually said it or not, this formula has proved extraordinarily effective. It has kept the White House firmly in Democratic hands, except only for the eight Eisenhower years.

I doubt that even Hopkins foresaw just how the formula would work—with the Democrats doing the spending and electing and the Republicans doing the taxing. Yet that has proved the division of labor.

The latest example is the 10 per cent surcharge recently passed by Congress. Republican votes provided the margin of victory—and not just the votes of a few Democrats in Republican clothing. On the contrary, the Republican leadership in both Senate and House backed the tax increase. It could not have passed without their support.

The largest single source of Federal revenue is an individual income tax that automatically imposes heavier taxes as incomes rise—whether the rise be in output or in prices. As a taxpayer’s income rises, so does the tax *rate* levied on that income, because the fixed dollar exemption becomes a smaller percentage of income and he moves into higher tax brackets. In order to keep the effective rate constant, nominal tax rates must be lowered. The absence of legislation lowering rates automatically means higher taxes. This is the “fiscal drag” that was made so much of during the Kennedy Administration.

In 1940, before our entry into World War II, individual income taxes amounted to less than 2 per cent of total personal income. At their wartime height in 1945, they were just under 10 per cent. Postwar tax reductions were followed by rises during the Korean War that carried the effective rate to over 10 per cent in 1953. The Eisenhower tax reduction in 1954 brought the rate down to 9 per cent—but then economic expansion pushed it up to an all-time high in 1963, well over 10 per cent. The Kennedy tax reduction in 1964 again carried the rate back to 9 per cent—but the subsequent expansion pushed it back up to around 10 per cent. *Even before the surcharge, the effective individual income tax rate was as high as it was at its peak in World War II.* The surcharge will carry it to a new all-time high.

The standard scenario has been that the Democrats—in the name of the New Deal, the Fair Deal, or the Great Society—push through large spending programs, with the assistance of a few Republicans but generally against the opposition of the Republican leadership. The spending programs not only absorb the increased tax yield generated by “fiscal drag,” they go farther and produce deficits. The Democrats then appeal to the Republicans’ sense of fiscal responsibility to refrain from cutting tax rates or, as in this case, to raise them. The Republicans cooperate, thereby establishing a new higher revenue base for further spending. The Democrats get the “credit” for the spending; the Republicans, the “blame” for the taxes; and you and I pay the bill.

The current tax increase, like the increase during the Korean War, was sold as a temporary war measure. That is an excuse, not a reason. Only half of the \$53 billion increase in Federal spending from 1965 to 1968 went for the military. Not the Vietnam war but the policy of spend and spend produces the need to tax and tax.

The Republicans point to the \$6 billion legislated cut in spending to justify their support of the tax increase. That is wishful voting. The tax increase is for real. The spending cut is a hope for the future. And at that, it is window dressing. Even if the full \$6 billion cut in the President's proposed budget were achieved, actual spending would go up by \$4 billion. And it requires no crystal ball to predict that the full \$6 billion will not be achieved.

I honor the Republicans for putting what they regard as the national interest ahead of partisan considerations. But I believe that they have been shortsighted in judging the national interest. True fiscal responsibility requires making the legislators who vote for high spending also vote for the high taxes required to finance it—not bailing them out. True fiscal responsibility requires resisting every tax increase and promoting tax decreases at every opportunity. That is the only way to put an effective ceiling on Federal spending.

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