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The Great Taxer

By PAUL KRUGMAN JUNE 8, 2004

Over the course of this week we'll be hearing a lot about Ronald Reagan, much of it false. A number of news sources have already proclaimed Mr. Reagan the most popular president of modern times. In fact, though Mr. Reagan was very popular in 1984 and 1985, he spent the latter part of his presidency under the shadow of the Iran-Contra scandal. Bill Clinton had a slightly higher average Gallup approval rating, and a much higher rating during his last two years in office.

We're also sure to hear that Mr. Reagan presided over an unmatched economic boom. Again, not true: the economy grew slightly faster under President Clinton, and, according to Congressional Budget Office estimates, the after-tax income of a typical family, adjusted for inflation, rose more than twice as much from 1992 to 2000 as it did from 1980 to 1988.

But Ronald Reagan does hold a special place in the annals of tax policy, and not just as the patron saint of tax cuts. To his credit, he was more pragmatic and responsible than that; he followed his huge 1981 tax cut with two large tax increases. In fact, no peacetime president has raised taxes so much on so many people. This is not a criticism: the tale of those increases

tells you a lot about what was right with President Reagan's leadership, and what's wrong with the leadership of George W. Bush.

The first Reagan tax increase came in 1982. By then it was clear that the budget projections used to justify the 1981 tax cut were wildly optimistic. In response, Mr. Reagan agreed to a sharp rollback of corporate tax cuts, and a smaller rollback of individual income tax cuts. Over all, the 1982 tax increase undid about a third of the 1981 cut; as a share of G.D.P., the increase was substantially larger than Mr. Clinton's 1993 tax increase.

The contrast with President Bush is obvious. President Reagan, confronted with evidence that his tax cuts were fiscally irresponsible, changed course. President Bush, confronted with similar evidence, has pushed for even more tax cuts.

Mr. Reagan's second tax increase was also motivated by a sense of responsibility -- or at least that's the way it seemed at the time. I'm referring to the Social Security Reform Act of 1983, which followed the recommendations of a commission led by Alan Greenspan. Its key provision was an increase in the payroll tax that pays for Social Security and Medicare hospital insurance.

For many middle- and low-income families, this tax increase more than undid any gains from Mr. Reagan's income tax cuts. In 1980, according to Congressional Budget Office estimates, middle-income families with children paid 8.2 percent of their income in income taxes, and 9.5 percent in payroll taxes. By 1988 the income tax share was down to 6.6 percent -- but the payroll tax share was up to 11.8 percent, and the combined burden was up, not down.

Nonetheless, there was broad bipartisan support for the payroll tax increase because it was part of a deal. The public was told that the extra revenue would be used to build up a trust fund dedicated to the preservation of Social Security benefits, securing the system's future. Thanks to the 1983 act, current projections show that under current rules, Social Security is good for at least 38 more years.

But George W. Bush has made it clear that he intends to renege on the deal. His officials insist that the trust fund is meaningless -- which means that they don't feel bound to honor the implied contract that dedicated the revenue generated by President Reagan's payroll tax increase to paying for future Social Security benefits. Indeed, it's clear from the arithmetic that the only way to sustain President Bush's tax cuts in the long run will be with sharp cuts in both Social Security and Medicare benefits.

I did not and do not approve of President Reagan's economic policies, which saddled the nation with trillions of dollars in debt. And as others will surely point out, some of the foreign policy shenanigans that took place on his watch, notably the Iran-contra scandal, foreshadowed the current debacle in Iraq (which, not coincidentally, involves some of the same actors).

Still, on both foreign and domestic policy Mr. Reagan showed both some pragmatism and some sense of responsibility. These are attributes sorely lacking in the man who claims to be his political successor.

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