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John McCain Has a Tax Plan To Create Jobs

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John McCain's tax policies are designed to create jobs, increase wages and allow all Americans -- especially those in the hard-pressed middle class -- to keep more of what they earn. His plan achieves these goals in three important ways.

First, he proposes a package of tax incentives that will create jobs and raise earnings by inducing firms to invest more in the U.S. Second, he is strongly committed to blocking any increase in tax rates while doubling the personal exemptions for families with children, which will reduce the tax burden on working Americans. Third, he proposes a new, refundable tax credit that will increase health-care coverage, reduce the cost of health care, and provide more funds for families and individuals to purchase health care.

Here's how the three components of Sen. McCain's tax plan will work in practice.

To create jobs, Mr. McCain will reduce the corporate tax rate -- now at 35% the second highest among all industrial countries -- to one that doesn't penalize firms for doing business here. To encourage small businesses to expand, he will fight against higher tax rates on their income.

To increase wages, Mr. McCain will provide incentives to raise productivity, which leads to higher wages. To increase productivity, he will provide incentives for developing and applying new technologies by expanding the tax credit for research and development, and by making that credit permanent.

More savings and investment in businesses also raise productivity. Mr. McCain will stimulate saving by keeping tax rates low on the returns to saving in the form of dividends and capital gains. He will also allow faster depreciation of assets, which encourages investment. And he will strengthen the incentive to save by reducing the maximum estate tax rate, with a substantial, untaxed exemption.

In stark contrast to Barack Obama, Mr. McCain believes that tax policy should be used to foster the creation of jobs and higher wages through economic growth, rather than to redistribute incomes. The economy is not a zero-sum game in which some people can enjoy higher incomes only if others are made worse off.

Mr. McCain's plan will significantly ease the tax burden on American families with children by doubling the personal exemption to \$7,000 from \$3,500. This means a larger percentage tax reduction for families with smaller taxable incomes, and specifically helps families in the middle income levels. And a President McCain will enable people to keep more of their earnings by preventing Congress from raising tax rates.

Mr. McCain's overall tax policy will also expand health-insurance coverage, and make health care more

efficient. Most taxpayers will also pay less in tax. Here's how it will work. His plan includes a refundable tax credit of \$2,500 for single individuals and \$5,000 for couples, if they receive a qualifying health-care policy from an employer (one that includes adequate coverage against large medical bills), or buy a qualifying policy on their own. The credit will replace the current tax rule, which excludes employer payments for health insurance from employees' taxable incomes.

This tax credit will be available to everyone, including the self-employed and the employees of businesses that do not provide health insurance. Thus it will lead to a major expansion of health-insurance coverage. The tax credit will of course be available to people who are between jobs, or have retired before they're eligible for Medicare.

Since any part of the credit not used to pay for insurance could be invested in a health savings account, individuals will have an incentive to choose less costly health-insurance policies. This will improve the efficiency of health care, to everyone's benefit.

Importantly, the tax credit will be a clear gain for most employees. Consider a married taxpayer whose employer now pays \$10,000 for a health-insurance policy. Ending the exclusion will raise that individual's taxable income by \$10,000 -- but the \$5,000 tax credit will exceed the extra tax liability whether the marginal tax rate that individual pays is 10% or 35% or anywhere in between. Indeed, the lower the taxpayer's income, the more of the credit that will be available to pay for health care that's not reimbursed by insurance.

Sen. Obama was at best disingenuous in his convention speech when he criticized the McCain plan for taxing health benefits. The health insurance tax credit exceeds the extra taxes on existing benefits.

Mr. Obama also criticized Mr. McCain on the grounds that he doesn't cut taxes on 100 million families. But this ignores the fact that Mr. McCain's health-insurance credits would benefit most taxpayers and that many people who are not currently eligible for the increased personal exemption will become eligible when they have children. When these features are taken into account, the vast majority of today's 140 million taxpayers would pay lower taxes under the McCain plan.

Tax revenues will increase robustly over the next few years with Mr. McCain's overall tax strategy as the economy grows -- even with conservative economic growth assumptions. And by maintaining strong control over the growth of government spending, Mr. McCain will bring the budget into balance. His long record of fighting against excessive government spending, his plans to veto earmarks and reverse the spending binge of the past few years, and his strong commitment to balancing the budget can make this goal a reality.

Mr. McCain's tax policy stands in strong contrast to Mr. Obama's ever-changing tax proposals. Although it is difficult to know just what Mr. Obama would do if he were elected, it is clear that he wants to raise taxes on personal incomes, on dividends, on capital gains, on payroll income and on businesses -- all of which will hurt the U.S. economy. He regards the tax system as a way to redistribute income, and disregards the resulting adverse incentive effects that reduce employment and economic growth.

Mr. Obama's claim to being a big tax cutter defies credibility. His assertion that he would cut taxes on 95% of families reflects his one-time \$1,000 rebate payouts, and a variety of new government spending handed out through the tax system.

Mr. McCain, on the other hand, has been clear that he wants to preserve the favorable incentive effects of the existing low tax rates -- and to reduce taxes in other ways that will strengthen the economy, create

jobs and help current taxpayers, including those without health insurance.

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