

Brought to you by:



"Development by Design," MiBiz, August 6, 2007

## First is last

By Ron Kitchens

In last month's column, I wrote about globalization of capital, people, culture and information, but it seems that I missed the most important trend - Reaganomics.

Yes, it seems that since 2001 at least 25 nations have adopted Reaganesque corporate tax cuts. The good news is that these 25 countries, ranging from Iceland to Canada, from the United Kingdom to Germany, and even Vietnam have seen a direct correlation between cutting the corporate tax rate and the increase in the collection of tax revenues.

Unfortunately, the United States is not one of those cutting taxes nor are we seeing an increase in revenue collected as a percentage of Gross Domestic Product. As Kevin Hassett of the American Enterprise Institute recently stated, "The United States is on the wrong side of the curve. We could collect more revenue with a lower corporate tax rate."

Remarkably, the concept of lowering tax rates to stimulate economic activity first popularized in the 1980s under President Reagan is one of the cornerstones of new French President Nicolas Sarkozy's reforms for France. He proposes to lower the corporate rate from 34.4 percent to 25 percent. An even more dramatic example is perhaps that of Germany, which began the decade still facing the costs of reuniting east and west with a 52 percent corporate tax rate. The current rate in Germany is now set at 29.8 percent and, as you know, their economy is booming.

Now that we are more than 25 years since the Reagan tax revolution where do we stand in the United States? We now have the highest corporate tax rate of any of the world's developed nations, with a rate of nearly 40 percent. (35 percent federal and an average of 4.3 percent state rate) And as you have probably guessed by now, we rank dead last in revenue generated as a percentage of Gross Domestic Product.

Foreign leaders around the globe have not converted to trickledown economics as some ideological epiphany but because it is what is required to compete for global business locations.

Lower tax rates are also good for individual workers, as the *Wall Street Journal* reported in 2006, "high corporate income taxes reduce the rate of increases in manufacturing wages." Higher rates are also bad for investors and consumers alike, as the reality is that businesses do not pay taxes. It is from the return provided to investors and the costs passed on to

consumers that taxes are paid. With lower taxes comes more money into the general economy, which in turn generates more economic opportunity for all.

Over the next year and a half, the more than 700 (or so it seems) candidates for president will all be discussing how they propose to adjust tax rates. Many are already proposing raising taxes on corporations in an attempt to soak the rich and capitalize on growth of key sectors of the economy. If we allow these misguided candidates to increase the tax rate, we will find it more and more difficult to compete in a global economy.

Our future - like that of the fastest growing economies on the globe - is in a low corporate tax rate. It is good for corporations, employees and consumers.

*Ron Kitchens is the Chief Executive Officer of Southwest Michigan First, the General Partner of the Southwest Michigan First Life Science Venture Fund and a Director of the Southwest Michigan Innovation Center. For a dose of business inspiration, enroll to receive a daily e-mailed business quote by going to [SouthwestMichiganFirst.com](http://SouthwestMichiganFirst.com) and clicking on the free subscription link. Ron can be reached at [www.RonKitchens.com](http://www.RonKitchens.com).*