Can Trump make 'trickle-down' economics work?

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If 1981 hits such as *Endless Love* and *Bette Davis Eyes* are suddenly bubbling to mind, Donald Trump's victory in the presidential race this week may evoke comparisons to Republican predecessor Ronald Reagan, if you're of a certain age.

His win is resuscitating the decades-old debate over whether the supply-side — derided by Democrats as "trickle-down" — tax policy Reagan championed can jump-start the listless U.S. economy.

The theory: Lowering taxes for businesses and wealthy individuals leaves more cash in their pockets, spurring more investment and hiring, and the faster growth generates enough new tax income to pay for the cuts. The top tax rate under Reagan was slashed to 28% from 70%, and business deductions became more generous. About 16 million jobs were created during his two terms, and the economy grew as much as 7.3% in 1984.

Trump proposes chopping the top individual marginal rate to 33% from 40% — as well as more modest cuts for those with low and moderate incomes — and the corporate rate to 15% from 35%. The many small-business owners taxed at the individual rate also would pay 15%.

"That's going to be a job creator like we haven't seen since Ronald Reagan," Trump said in his first debate with Hillary Clinton. "It's going to be a beautiful thing to watch."

Clinton scoffed, saying such cuts simply benefit the rich. "I call it trumped-up trickle-down because that's exactly what it would be. That is not how we grow the economy."

Or is it?

Absolutely, says Ike Brannon, senior visiting fellow at the Cato Institute and economic adviser for Sen. John McCain, R-Ariz., during his 2008 presidential run.

"If you make it cheaper to invest, ultimately, companies are going to grow and hire more people," he says.

Nonsense, says Jared Bernstein, former chief economist for Vice President Biden and a senior fellow at the Center on Budget and Policy Priorities. First, he says, it's not clear that tax cuts are what juiced the economy in the 1980s, noting Reagan spearheaded massive increases in defense spending — from $325 billion in 1980 to as much $456 billion in 1987 — that rippled across the economy.

The lower taxes and higher military spending nearly tripled the national debt to $2.8 trillion by the time Reagan left office, stoking inflation fears that contributed to the recession under President George H.W. Bush in 1990-91.

President Bill Clinton "significantly raised taxes and had bigger job gains than Reagan," Bernstein says. About 22 million jobs were created in the eight years Clinton was in office, and the economy grew an average 3.8% a year, helped, in part, by a tech boom that turbocharged business productivity. Despite tax cuts for the wealthy, the economy slipped into a deep recession in George W. Bush's term.

Bernstein says sharp tax cuts made more sense in the Reagan era. The 70% top personal tax rate was far higher than the current 40%, so the massive reduction could have unleashed much more pent-up demand for investment than Trump's plan would.

Besides, while interest rates are near record lows and many companies are awash in cash, it's not as if they don't have easy access to funds for capital spending, Bernstein says. Yet, he says, many have chosen to buy back stock and fatten dividends.

Mark Zandi, chief economist of Moody's Analytics, says tax cuts do lead to stronger investment and job growth, but those benefits "are generally overstated." He says they "do not pay for themselves" through additional tax revenue, citing the ballooning national debt during Reagan's term.

That doesn't mean slicing business taxes doesn't have advantages. Harvard Business School professor Michael Porter says lowering the corporate tax rate — highest among advanced economies — would make the USA more competitive as a location for multinationals.