



# The Badger HERALD

## **A new era of tax cuts is essential for American prosperity**

*Analyzing cuts of presidents past shows best way to help the American people is to let them keep their money*

John Graber

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“The final and best means of strengthening demand among consumers and business is to reduce the burden on private income and the deterrents to private initiative which are imposed by our present tax system — and this administration pledged itself last summer to an across-the-board, top-to-bottom cut in personal and corporate income taxes to be enacted and become effective in 1963.” – John F. Kennedy

With this speech to the Economic Club of New York on December 14, 1962, came one of the greatest economic booms since the end of World War II. From a 21st century perspective, the most surprising of the words in this speech is the man who spoke them. Former President John F. Kennedy was, of course, a Democrat. He was advocating for a large reduction in the marginal tax rates.

No Democrat today would ever make such a proposal, instead arguing the rich need to pay their “fair share” for the purpose of redistribution. Rather than remove policies that constrict economic growth, they prefer to enable them.

Under JFK, everyone received a tax cut. From the top rate lowering from 91 percent to 70 percent down to the bottom rate going from 20 percent to 14 percent. The annual average real GDP growth rate under former President Dwight Eisenhower (1953-1961) was just 2.72 percent, but under the administrations of Kennedy and his successor Lyndon B. Johnson (1961-1969), the GDP growth rate would soar to 5.01 percent.

Following the Kennedy boom, later presidents weakened the economy again through tax increases, until former President Ronald Reagan. One of the reasons the new Republican

president won the 1980 election by a landslide was because of his calls for a supply-side tax cut similar to the one passed under Kennedy.

Reagan would do even better, getting away with two tax cuts. The first in 1981 brought the top rate down from 70 percent to 50 percent, and the second in 1986 would bring it down to 28 percent. During the presidency of his predecessor Jimmy Carter (1977-1981), annual real GDP growth increased by 2.75 percent. Under Reagan it increased by 3.61 percent, from 1981 to 1989. The unemployment rate under Reagan would peak at 10.8 percent in 1982 before falling to 5.4 percent in January 1989.

A Cato Institute analysis of Reagan's tax policies found real median household income rose by \$4,000 compared to a decrease of \$1,500 under Carter. As was the case with Johnson, however, Reagan also needed to raise military spending due to the Cold War. This led to a rising national debt, even though he managed to limit domestic spending growth to an annual average of 1 percent (compared to 3.5 percent under Carter).

Fast forward to 2016 and President Donald Trump is making the right call by saying that he wants to slash taxes. His proposal included cutting the corporate tax rate from 35 percent to 15 percent, as well as reductions on the income tax rate. The plan from House Speaker Paul Ryan and congressional Republicans might have some differences, but also bring down taxes significantly.

Initiating pro-growth policies would be a welcome change for our slow economy. The U.S. has one of the highest corporate tax rates in the developed world. This places us at a disadvantage while other countries create better business environments.

In the United Kingdom, the corporate tax rate has dropped from 35 percent to 20 percent since the late 1980s. A new report from the Centre for Policy Studies has found the lower rate has boosted growth and created more jobs. Overseas businesses see the British economy as more attractive, which drives up investment and wages there.

To avoid the deficit scenarios that Johnson and Reagan had to deal with, Trump will have to get serious about federal spending. His proposal to cut spending on many agencies is a good start. A commitment to smaller government helps pave the way for a balanced budget and fiscal responsibility.

There's a great bipartisan record on supply-side tax reform in American history. Trump has promised a large tax cut. He should carry through with this promise because it will make him very popular and ignite an economy that has been stagnating for years. If implemented, then there is a good chance that Trump could leave office with one of the best economic records of any modern president.