



# A RECORD OF SUCCESS: HOW BOLD TAX RELIEF POWERS ECONOMIC GROWTH

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## INTRODUCTION

Our federal tax code is broken—that’s something that every lawmaker in Washington can agree on. It is too complex, too burdensome, and works for the benefit of special interests at the expense of everyone else. It has been over a decade since Congress was able to relieve some of that burden with tax cuts, and some 30 years since any kind of far-reaching, comprehensive reform. Since that time, lawmakers have made thousands of tweaks and created loopholes that make our tax code more convoluted and globally uncompetitive.

A November 2016 *Reuters/Ipsos* poll found that 72 percent of Americans believe the economy is rigged to advantage the rich and powerful.<sup>1</sup> There’s no greater contributor to the rigged economy than the U.S. tax code. Tax reform is Washington’s opportunity to un-rig it.

This year, President Trump and Congress have outlined plans to cut and simplify individual and corporate taxes, eliminate special-interest loopholes, and undo much of the burdensome complexity amassed over decades. Enacting these reforms would grow the economy and increase opportunities for all Americans, especially the most vulnerable. And contrary to what critics say, history shows that reducing the tax burden on Americans results in more revenue and more economic growth—not less.

It is critical that Congress resist using “revenue neutrality” as an excuse to create new tax burdens or

simply redistribute them to other sectors of the economy. Doing so would undermine many of the benefits of reform and fail to deliver the relief Americans deserve. Instead, lawmakers should ignore the critics and go bold. In short, the best way to create more jobs, grow the economy, and increase revenue is to cut taxes, close loopholes, and rein in wasteful spending.

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## **THE CRITICS OF TAX REFORM HAVE ARGUED FOR YEARS THAT TAX CUTS WILL DECREASE FEDERAL REVENUES, FAVOR THE RICH, OR HURT THE ECONOMY. THEY WERE WRONG THEN AND THEY ARE WRONG NOW.**

There is a reluctance among some in Congress to support bold tax cuts for fear it will increase deficits or reduce federal revenues, favor the rich, or hurt the economy. But a look at the results of past tax cuts shows that such dire predictions of lost revenue and deeper debt are misplaced. Claims that the rich would benefit at the expense of the poor are likewise false. And fear-mongering about slipping into a new recession is unfounded.

Tax cuts enacted during the last 50 years resulted in lower tax rates, more jobs, greater economic growth, higher wages across the board, and more revenue, not less. Tax cuts expanded opportunity for all, helped improve the lives of millions of Americans, and made our country more competitive.

Tax reductions advanced by past administrations demonstrate how the economy responds to significant tax reductions. For the purposes of this brief analysis, we examined the Kennedy tax cuts of 1964, the Reagan tax cuts of 1981, and the Bush tax cuts of 2003. Here's what they did:

- **KENNEDY TAX CUTS (1964):** The Tax Reduction Act cut individual income tax rates across the board by approximately 20 percent and reduced the corporate tax rate from 52 percent to 48 percent.
- **REAGAN TAX CUTS (1981):** The Economic Recovery Act featured an across the board individual rate cut of 23 percent over three years. For example, the top rate dropped from 70 to 50 percent and the bottom rate from 14 to 11 percent. These cuts were fully phased in by 1983.
- **BUSH TAX CUTS (2003):** The Jobs and Growth Tax Relief Reconciliation Act enacted cuts to individual rates, capital gains, dividends, and the death tax.

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## **TAX CUTS HAVE HISTORICALLY LED TO INCREASES IN FEDERAL REVENUES, NOT DECREASES.**

Opponents of tax cuts in Washington have already begun the popular chorus that tax cuts will result in depleted revenues and an explosion of federal debt. These arguments ignore the historical record. In fact, in the wake of major tax cuts, the federal government usually brings in more tax revenue, because a booming economy increases the amount of taxes collected each year. American individuals and businesses have more to save and invest, the economy grows, jobs are created, and everyone benefits—including Uncle Sam.

During the ten-year periods following the three historic tax cuts described above, federal tax receipts increased by:

\$283 BILLION	KENNEDY TAX CUTS <sup>ii</sup>
\$400 BILLION	REAGAN TAX CUTS <sup>iii</sup>
\$227 BILLION	BUSH TAX CUTS <sup>iv</sup>

Done right, lower rates and more certainty leads to economic growth and an increase in federal tax receipts—to the tune of hundreds of billions of dollars. While failing to address out-of-control spending will always undermine the economic impact of tax cuts, the increase in revenue they generate should not be overlooked.

Furthermore, state and local governments would also stand to benefit from economy-boosting tax cuts. As Arthur Laffer and Stephen Moore wrote in a *Wall Street Journal* column advocating the Trump administration’s approach:

***“What states need most to regain fiscal health are national policies that accelerate the growth of the economy. Governors and mayors should be lobbying nonstop for the tax cuts proposed by Mr. Trump, which would revitalize state finances.”***

***“When the federal government cuts taxes, more money is left in the hands of businesses and workers. The Trump plan would free up an estimated \$2 trillion to \$4 trillion over 10 years—an enormous influx of cash for state and local economies.”***<sup>v</sup>

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## **TAX REDUCTIONS HAVE SPARKED ROBUST GROWTH IN THE PAST, AND HAVE THE POTENTIAL TO DO IT AGAIN.**

Earlier this year, the Bureau of Economic Analysis released its final estimate of gross domestic product (GDP) for the fourth quarter of 2016, announcing that the U.S. economy expanded at an annualized quarterly rate of just 2.1 percent.<sup>vi</sup> This finding was right in line with quarterly GDP growth during the Obama “recovery” (from 2010 -2016), which averaged just over 2 percent, well below historical norms.<sup>vii</sup> To put Obama’s sluggish GDP growth in perspective, from 1946 to 2007, the U.S. economy expanded at an average quarterly rate of 3.5 percent.<sup>viii</sup>

Sadly, too many Americans have come to see GDP growth between one and two percent as “the new normal.” But it doesn’t have to be that way.

The best way to jumpstart a sluggish economy that has been buried under the failed regulatory and

tax-and-spend policies of the Obama administration is comprehensive tax reform with bold cuts. History shows that previous tax cuts have resulted in significant increases in growth.

During the five-year period following each of the highlighted tax cuts, average quarterly GDP grew:

5.2%	KENNEDY TAX CUTS <sup>ix</sup>
5%	REAGAN TAX CUTS <sup>x</sup>
3%	BUSH TAX CUTS <sup>xi</sup>

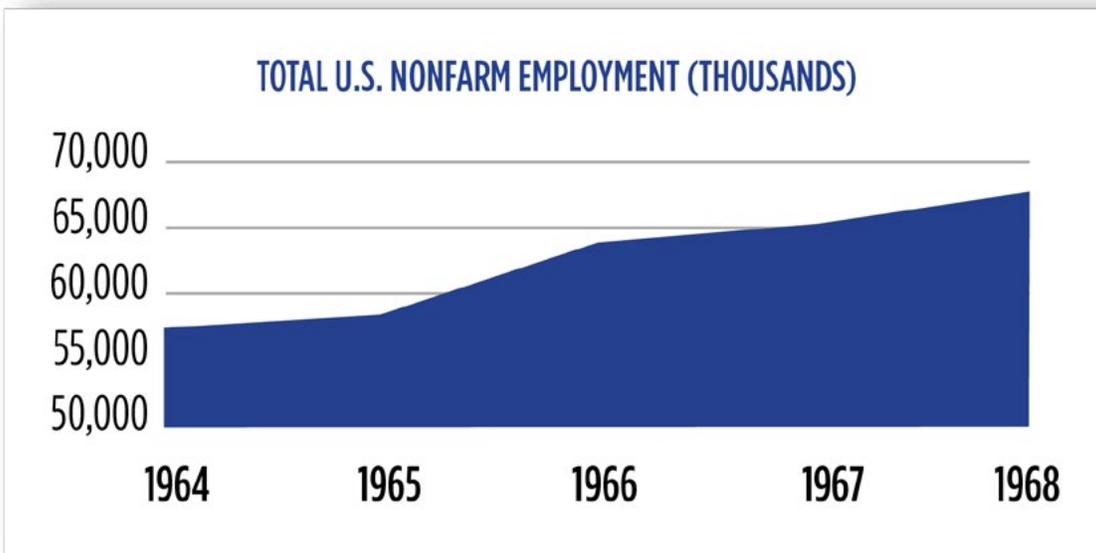
In each case taxes were cut significantly and GDP grew at an impressive rate. With tax and regulatory reform, the Trump administration has said it hopes to achieve 3 percent growth. <sup>xii</sup> The numbers above suggest that target could be within reach.

### THE JUMP IN GDP MEANT AMERICA'S EMPLOYERS WERE HIRING. TAX REFORM LED TO MILLIONS OF NEW JOBS.<sup>xiii</sup>

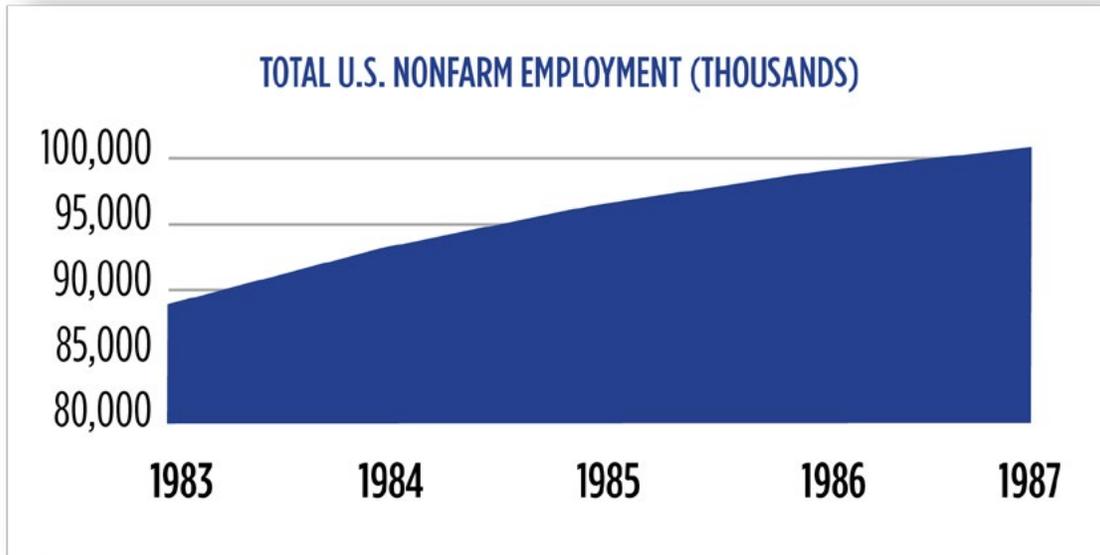
As the charts below indicate, the U.S. economy added millions of new jobs in the aftermath of major tax cuts.

Again, looking at the five-year window following the Kennedy, Reagan, and Bush tax cuts clearly shows that the economy was booming and that jobs were being created at an impressive pace. Following the Kennedy cuts, 9.3 million jobs were added in five years. Following the Reagan cuts, 11.7 million jobs were created. And following the Bush cuts, 6.9 million jobs were created. Putting this in perspective, during the five years following the 2009 "economic stimulus," the economy added an anemic 2.2 million jobs.

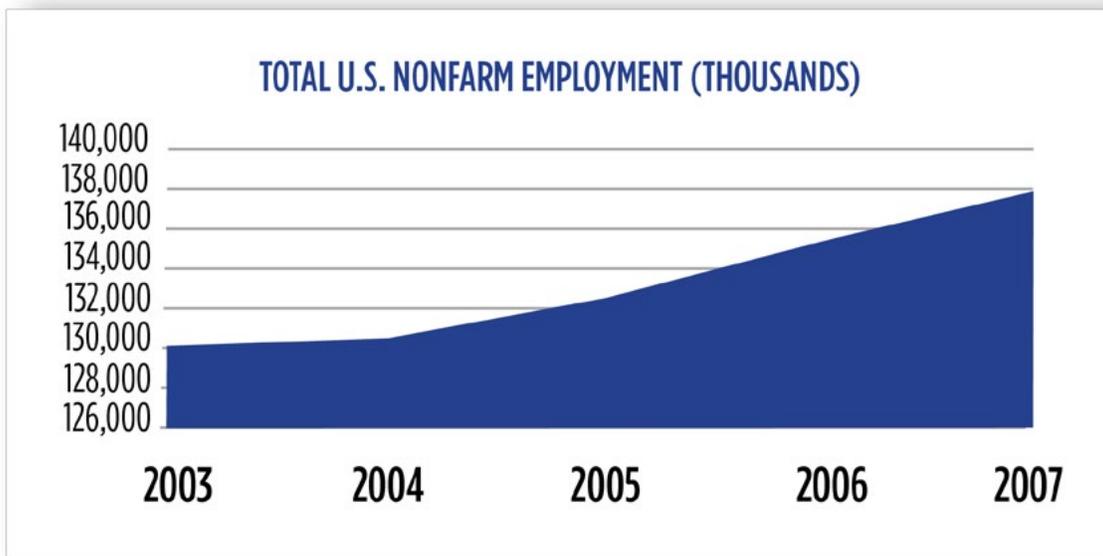
### FOLLOWING THE KENNEDY TAX CUTS, THE U.S. ECONOMY ADDED 9.3 MILLION JOBS.<sup>xiii</sup>



FOLLOWING THE REAGAN TAX CUTS, THE U.S. ECONOMY ADDED 11.7 MILLION JOBS.<sup>xiv</sup>



FOLLOWING THE BUSH TAX CUTS, THE U.S. ECONOMY ADDED 6.9 MILLION JOBS.<sup>xv</sup> BY COMPARISON, AFTER THE BEGINNING OF THE 2001 RECESSION AND BEFORE THE 2003 TAX CUTS, THE ECONOMY LOST 2.2 MILLION JOBS.<sup>xvi</sup>



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## WITH INCREASED GROWTH AND JOBS COMES HIGHER WAGES, MORE DISPOSABLE INCOME, AND MORE OPPORTUNITY FOR A BETTER LIFE.

With the economy growing rapidly following tax cuts, families were able to keep more of that income to improve their quality of life and well-being. Following each of the tax cuts explored here, disposable income (income left over after taxes) increased significantly. This meant that Americans had more money in their pocket to spend, save or invest in their future.

During the 5-year period following each of the major tax cuts, per-capita disposable income increased by:

\$2,243	KENNEDY TAX CUTS
\$2,715	REAGAN TAX CUTS
\$2,524	BUSH TAX CUTS <sup>xvii</sup>

By comparison, during the 5-year period following the 2009 “economic stimulus,” per-capita disposable income increased by **just \$798**.<sup>xvii</sup>

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## HIGH EARNERS HISTORICALLY PAY A LARGER PORTION OF THE TOTAL U.S. TAX REVENUE AFTER CUTS.

One of the most common criticisms of tax cut proposals is that they will benefit the wealthy at the expense of everyone else. However, history has shown that even when rates are cut for high earners, they actually end up paying a larger portion of the total tax burden over time. For example, in 1983, the top 10 percent of taxpayers paid 50 percent of all taxes in the United States.<sup>xix</sup> But in 1989, after the top tax rate had been slashed multiple times, the top 10 percent of taxpayers were responsible for 56 percent of all taxes. Similarly, in 2003, the top 10 percent of taxpayers paid 65 percent of taxes, but were paying 70 percent of all taxes by 2007.<sup>xxi</sup>

The trend is more apparent over a long period of time: in 1980, the top 1 percent paid 19 percent of taxes. By 2014, they were responsible for nearly 40 percent.<sup>xxii</sup> The top 10 percent paid 49 percent of taxes in 1980, but were responsible for 71 percent of taxes by 2014.<sup>xxiii</sup>

Even though there were significant rate cuts during this time period, the burden of taxes continued to shift upward toward higher earners. When people are allowed to keep more of their hard-earned money, they put it to more productive uses. When they become more productive, they generate more taxable income and therefore actually end up paying more taxes, albeit at a lower rate.

**CONCLUSION: POSITIVE, PRO-GROWTH TAX REFORM THAT LOWERS RATES CAN JUMPSTART THE ECONOMY AND RESTORE FAITH IN TAX CODE.**

The historical record is clear—tax reform that lowers rates, creates a more level playing field, and provides greater incentives to save and invest is an economic winner. If they stick to these principles, Congress and President Trump can deliver to all Americans the kind of economic growth and prosperity that we have historically seen following major tax cuts if they stick to those principles.

Some will argue that tax cuts will be a major blow to federal tax revenue. But during the ten-year periods following the Kennedy, Reagan and Bush tax cuts, federal tax receipts increased by hundreds of billions:

<b>\$283 BILLION</b>	KENNEDY TAX CUTS <sup>xxiv</sup>
<b>\$400 BILLION</b>	REAGAN TAX CUTS <sup>xxv</sup>
<b>\$227 BILLION</b>	BUSH TAX CUTS <sup>xxvi</sup>

Many have argued the best way to jumpstart the economy is with more government spending. But during the five-year period following each of the highlighted tax cuts, average quarterly GDP growth grew significantly:

<b>5.2%</b>	KENNEDY TAX CUTS <sup>xxvii</sup>
<b>5%</b>	REAGAN TAX CUTS <sup>xxviii</sup>
<b>3%</b>	BUSH TAX CUTS <sup>xxix</sup>

During the same period, per-capita disposable income increased by thousands of dollars:

<b>\$2,243</b>	KENNEDY TAX CUTS
<b>\$2,715</b>	REAGAN TAX CUTS
<b>\$2,524</b>	BUSH TAX CUTS <sup>xxx</sup>

And the economy added millions of jobs:

<b>9.3 MILLION JOBS</b>	KENNEDY TAX CUTS <sup>xxxi</sup>
<b>11.7 MILLION JOBS</b>	REAGAN TAX CUTS <sup>xxxii</sup>
<b>6.9 MILLION JOBS</b>	BUSH TAX CUTS <sup>xxxiii</sup>

Passing the kind of tax overhaul that our code desperately needs will not be easy—eliminating special handouts to favored interests never is. But history is on the side of bold tax reforms with lower rates.

The data presented here show the robust economic growth is within reach. Americans have grown far too accustomed to a weak economy and stagnant wages - now is the time to change their perspective. It wasn't long ago that 3 percent GDP growth was easily attained and even exceeded. By ushering in comprehensive tax reform this year, we can get America back to a period of robust economic growth and prosperity.

Washington has a real opportunity if lawmakers come together to pass the right kind of reform, creating a system more equitable for individuals, more predictable for businesses, and fairer, flatter, and simpler for everyone. If Congress insists on making tax reform revenue neutral, it should do it by cutting spending and shrinking the size of government, not imposing new taxes elsewhere.

Comprehensive tax reform that reduces taxes and provides relief is what Americans deserve. Don't let politics stand in the way.

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- xxxii.** *Id.*
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