RSC
Republican Study Committee
Rep. Sue Myrick (R-NC), Chairman
Neil Bradley, Executive Director
230 Cannon House Office Building
Washington, D.C. 20515
ph (202) 226-9717 / fax (202) 226-1633

The Republican Record on Taxes and the Deficit: A Comparison of the Reagan Tax Cuts of the 1980s and the Bush Tax Cuts.

May 20, 2003 Staff Contact: Neil Bradley, 202-226-9717

> **"We don't have a trillion-dollar debt because we haven't taxed enough; we have a trillion-dollar debt because we spend too much."**
>
> **-- President Ronald Reagan, March 28, 1982, Address to National Association of Realtors**

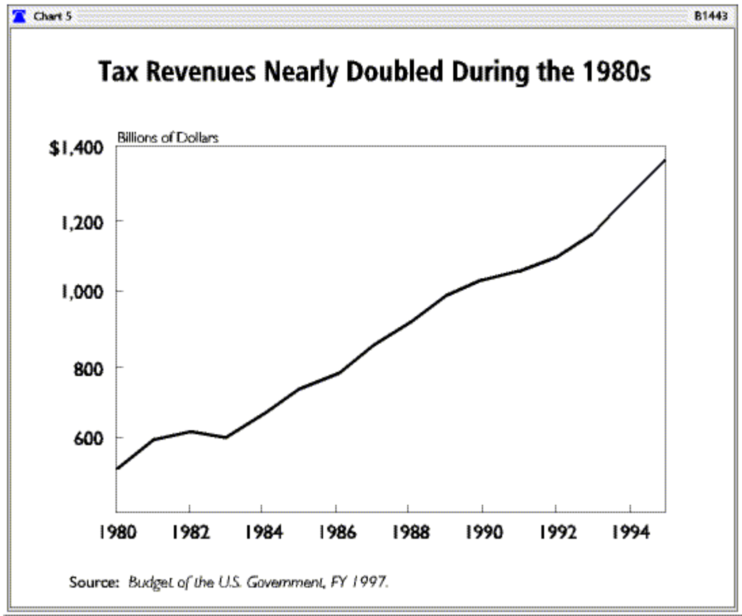
Recently there have been charges from many Democrats and even some Republicans that the Republican Party has abandoned its commitment to deficit reduction in favor of continual tax cuts and that somehow true Republicans should embrace tax increases as a way of balancing the budget.

This criticism is based on a completely distorted view of the traditional Republican view of taxes, deficits, and spending. As President Reagan demonstrated in the 1980s, reducing tax rates increases economic growth, which in turn leads to higher revenues for the government. The deficit is caused by either overspending and / or anemic economic growth (which results in lower tax revenue). While sometimes deficit spending is necessary, such as the current expenditures for the war on terrorism, eliminating the deficit requires increasing economic growth AND restraining and eliminating non-essential expenditures.

What We Learned from the Reagan Tax Cuts:

During his eight years in office, President Reagan oversaw the enactment of tax relief legislation that reduced the top tax rate from 70% to 28%. The impact on the economy of President Reagan's tax relief legislation was very clear. When the President took office in 1981, the U.S. was experiencing near record-high inflation and was in the middle of a recession. As a result of the tax relief that began in 1981, the economy pulled out of the recession and economic growth for the next seven years averaged almost 4% a year.

While critics contend that the Reagan tax cuts led to then-record deficits, the record clearly illustrates that the economic growth that resulted from lower tax rates actually caused overall federal revenue to rise. As the following chart produced by the non-partisan Heritage Foundation illustrates, federal tax revenues nearly doubled during the 1980s.



This phenomenon was no surprise to former Representative Jack Kemp (R-NY), one of the chief architects of the Reagan tax cuts and the 1996 Republican vice-presidential candidate, who stated: "At some point, additional taxes so discourage the activity being taxed, such as working or investing, that they yield less revenue rather than more. There are, after all, two rates that yield the same amount of revenue: high tax rates on low production, or low rates on high production."

For a more detailed historical accounting of the impact of tax relief on the economy and overall federal revenue, see "Lowering Marginal Tax Rates: The Key to Pro-Growth Tax Relief" by Daniel J. Mitchell, Ph.D., the Heritage Foundation, Backgrounder #1443 http://www.heritage.org/Research/Taxes/BG1443.cfm

History Is Repeating Itself With the Bush Tax Cuts:

After taking office in the midst of a recession, President Bush worked to enact three separate tax relief measures over three years designed to help working Americans and encourage economic growth. Recent economic data indicate that, like the 1980s, the economy is responding to these tax relief proposals. The overall economy is growing at the highest rate in 20 years. Payroll employment is also growing strongly now - up over 1.1 million jobs over the past 8 months, and up by 867,000 over the first 4 months of this year.

Like the critics of the 1980s, critics of President Bush's tax relief proposals contend that tax relief is responsible for the current deficit. However, just like the 1980s, the government is now seeing increased revenue growth caused by recovering economy. As the Congressional Budget Office reported just this month, federal revenues "are running $30 billion to $40 billion higher than anticipated." This increased revenue is a direct result of the economic growth generated by the tax relief enacted over the past three years.

Furthermore, an analysis of the cause of the current deficit shows that 40% of this year's deficit is caused by the downturn in the economy, which results in lower revenues; 7% by the costs of the war in Iraq; and 20% by other increases in federal spending. Only 32% of the increase in the deficit is the result of enacted tax relief. Two-thirds of the deficit is caused by the downturn in the economy and spending. The tax relief, which is only responsible for less than 1/3 of the current deficit, is essential to reversing the weak economy. In short, only way to reduce the deficit is to increase economic growth and to control non-essential spending.