Tax-Slashing 1981

The Kindest Cuts of All

Grover Norquist

In the early 1870s, the United States of America became the largest economy in the world. In 1984, America became the world's fastest growing major economy. We are growing faster than Japan. Faster than West Germany. Only Singapore and Taiwan have been able to keep pace with America's real growth of 7.6 percent over the past 12 months.

Why? Where did this burst of economic growth come from?

Just a few years ago we were admonished that we suffered from malaise—that there were limits to growth—limits to our future and our dreams. Taxes were creeping ever upward. The economy was veering between double-digit inflation and high unemployment.

The Economic Recovery Tax Act of 1981 changed all that. The tax cut slashed personal income tax rates by 25 percent for all Americans. It accelerated depreciation for business investment, dropped the capital gains tax from 28 percent to 20 percent, and sharply reduced gift and inheritance taxes.

Keynesian economists told us that the tax cut would be wildly inflationary and raise interest rates. They were wrong. Interest rates fell from 21.5 percent in 1980—their highest level since the Civil War—to 13 percent. Inflation fell from 12.4 percent in 1980 to below 4 percent for the past year. The recession of 1982 ended when the tax cut was fully implemented in January 1983.

The supply-siders who pushed for the tax cut promised us that reducing tax rates would increase the incentives to work, save, and invest. And that is exactly what has happened. The resulting economic activity has been explosive.

Since the third installment of the tax cut took effect in 1983, more than 6½ million new jobs have been created. Total employment has jumped to a record 105.4 million—5 million above its previous peak. The percentage of working-age Americans employed rose to a historic high of 60.0 percent in June 1984.

Facing lower taxes and thus higher rewards for hard work and risk-taking, more Americans are becoming entrepreneurs. The number of self-employed has risen by nearly 400,000 since December 1982. New business incorporations, as measured by Dun and Bradstreet, have been increasing by more than 600,000 a year—twice the rate of a decade ago.

And the job bonanza is particularly impressive when compared with the European nations, which have followed a model of industrial policy rather than tax cuts. In May 1984 alone, the American economy generated 880,000 new jobs, more than the Common Market countries of Europe have created in the past 12 years.

Investment-Led Recovery

The supply-siders also predicted correctly that tax cuts would fuel a surge in investment. Venture capital expanded by 56 percent in 1983 over 1982. Initial public stock offerings raised $12.6 billion in 1983—more than the total garnered in the previous 10 years.

In the first six quarters of the recovery, business fixed investment rose by 25.4 percent. Investment in durable equipment jumped by 32 percent. The increase in investment is almost three times stronger than in the previous four recoveries. This is no normal business cycle. This is an investment-led recovery highlighting the confidence investors have in our future.

Some Keynesians, recognizing the strength and reality of economic growth, have moved to take credit for the recovery. They argue that the federal deficits are the true engine of growth—not the greater incentives of lower tax rates. Lester Thurow has joined this chorus by announcing that "President Reagan has become the ultimate Keynesian."

But this belated attempt to take credit for a recovery they did not predict will not work. The claimed paternity is refuted by the facts.

Despite the *Washington Post*'s assertion that this is a classic consumer-led recovery, consumption grew by only 5.4 percent in 1983, compared with real GNP growth of 6.2 percent. During this period, according to Norman Ture, investment grew by 37.4 percent, six times faster than consumption.

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Higher Tax Revenues

Tax cuts have also generated higher tax revenues, especially in the top brackets. In 1981, at the insistence of Democratic congressmen, the top marginal rates were cut from 70 percent to 50 percent. The result was exactly as supply-siders predicted. Money came out of non-productive tax shelters and into productive, wealth-creating, and taxable investments. And contrary to conventional wisdom, the tax burden shifted toward the rich.

Indeed, as syndicated columnist Warren Brookes has reported, "those with incomes above $500,000 paid 40 percent more tax revenues in 1982 than in 1981. One of the primary reasons for this huge increase was a 55 percent rise in the number of returns filed by those reporting $1 million or more in adjusted gross income."

The accelerated depreciation provisions of the 1981 tax bill have boosted the internal cash flow of American companies, which are now able to meet 75 percent of their non-financial needs internally, up from 58 percent before the tax cut. Cash generated through depreciation on corporate and non-corporate assets has risen to $377.3 billion. Add undistributed profits of $78 billion and personal savings of $118 billion, and a total of $569.8 billion is available to finance America's borrowing needs, both public and private.

Even this larger figure does not fully state the increase in savings. The bull stock market which ran the Dow Jones up from 780 in August 1982 to over 1,200 expanded the personal wealth of Americans by more than $500 billion. While this jump in wealth does not show up in flow-of-funds statistics, it represents true savings available to finance borrowing needs.

Falling Deficit

Political opponents of the tax cut have wisely chosen to ignore those heartening statistics. Instead, critics argue that the tax cut has created federal deficits as far as the eye can see. These deficits, they say, will sop up all available capital, thus driving up interest rates, reigniting inflation, and leading to a collapse. The solution they offer is to increase taxes to bring down the deficit and avoid Armaggedon.

But the tax cut of 1981 did not cause the present federal deficit.

The deficit is the difference between total spending and total revenue. Federal revenues now take in 18 to 19 percent of the GNP, the same as in the 1970s. Federal spending, however, has jumped from an average of 20 to 22 percent to almost 25 percent in 1983. We are witnessing deficit *spending*—not inadequate taxation.

Further, the deficit is not $200 billion. The deficit hit a recession-induced high of $195 billion in fiscal year 1983, but economic growth has expanded the tax base and reduced social spending, particularly unemployment compensation (down $17 billion in the first nine months of FY 1984). The deficit is now running at about $170 billion and will continue to fall in real terms and as a percentage of the gross national product.

Tax increases will not close the deficit. This was attempted with the ill-fated Tax Equity and Fiscal Responsibility Act of 1982. We were promised three dollars in spending cuts for every one of the $98 billion in tax increase. Yet, when the smoke cleared, Congress had spent every penny of the new revenues plus some. We got $1.16 of spending increase for every dollar of additional taxes. The deficit widened. Another round of tax increases will only slow the growth of the economy and increase rather than decrease the deficit.

California turned a $1.5 billion deficit in 1983 into a $1 billion surplus after refusing to enact a statewide tax increase. Instead, the state raised revenues through the economic growth created by the federal tax cut. State budgets are now $60 billion in surplus as a result of the national economic recovery.

Economic growth raises tax revenues as more people go to work and join the payrolls. At the same time, it reduces federal spending on social programs and the demand for social welfare programs.

> *"The results are in—and unmistakable. The tax cut of 1981 worked."*

The results are in—and unmistakable. The tax cut of 1981 worked just as its proponents said it would. It increased incentives for individuals to work, save, and invest, and the American people responded quickly and decisively. And the economic growth the tax cut created has given us the means to further reduce the already falling deficit.

It is ironic that just as the low tax policy of the Reagan administration is proving itself successful on all fronts, leading politicians of both parties have failed to understand how and why the economy is growing at 7.6 percent, a rate usually reserved for inflation figures.

Worse, these politicians are calling for a return to the very policies of high taxation and high federal spending that failed so miserably in the 1970s.

The rest of the world, however, is beginning to understand why America is once again the model for economic growth. Impressed by the vitality and entrepreneurship he witnessed on a recent trip to Silicon Valley, France's President François Mitterrand has announced a tax cut of 8 percent. Britain's Prime Minister Margaret Thatcher, after experimenting with monetarism and trying repeatedly to cut spending first and taxes second, has come up with a new budget with lower marginal tax rates. In the last few years workers have held massive demonstrations in Japan, Sweden, and Ireland, each time demanding tax cuts.

Our secret for rapid economic growth is no secret. The whole world has seen and marveled at the power and strength of the American economy when tax cuts unleash the talents, the energies, and the genius of the American people.

The Marketplace of Ideas

Forty Years of Best-Selling Conservative Books

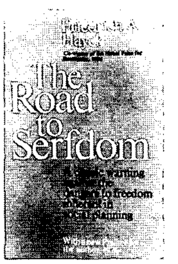
Jean Savage

Best-seller lists are usually the terrain of sensational novels, diet books, and Garfield the Cat. They seem unlikely places to find the titles of serious works extolling the virtues of individualism, freedom, and Christian morality. But the demand for conservative books is out there, and over the past 40 years dozens of such books have climbed to best-seller status. As defined by the publishing trade, this means selling at least 30,000 copies in the first flush of publication, with healthy continuing sales.

Frequently these conservative best-sellers have been published without advance notice, and without acknowledgment by the literary establishment. Some have not even been included on coast-to-coast best-seller lists. Nor have they always been the most original works intellectually; in many cases they have popularized ideas from more seminal works. Nonetheless, many of these conservative best-sellers have fired the American imagination and deeply influenced the nation's politics.

What follows here is an abbreviated list of conservative best-sellers, a dozen of America's more popular books over the last forty years.

The Road to Serfdom



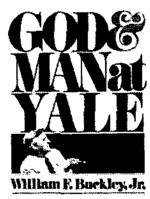
The first, and probably the most important, title on this list had one of the most inauspicious beginnings. Friedrich Hayek's *Road to Serfdom* was rejected by several major publishing houses before it was brought out in 1944 by the University of Chicago Press in a printing of only 2,000 copies. The book was snapped up, and larger printings followed immediately. In early 1945, it was condensed and reprinted by the *Reader's Digest,* and distributed by the Book-of-the-Month Club. To date, it has sold 79,000 in hardcover, 127,000 in paperback, and continues to sell at least two to three thousand copies a year.

The enduring popularity of *The Road to Serfdom* is the result of Mr. Hayek's timeless, succinct warning to the West of the dangers of collectivism and totalitarianism. In the midst of a war in which one totalitarian state was a U.S. enemy, another an ally, Mr. Hayek showed their common basis in socialism, and the seeds of statism in all of Western society. He wrote of the blindness of modern liberals to the conflict in principle between freedom and socialism, and his words are still fresh today:

> It is more important to clear away the obstacles with which human folly has encumbered our path and to release the creative energy of individuals than to devise further machinery for 'guiding' and 'directing' them. . . .

Mr. Hayek became a Nobel laureate in economics in 1974, and the special importance of his book among conservative best-sellers is confirmed by the acknowledged debt of many of the other authors.

God and Man at Yale



How a famous institution failed to live up to treasured American ideals was the takeoff point for *God and Man at Yale* by William F. Buckley, Jr., published in 1951. In his outburst against his alma mater, written a few years after his graduation, Mr. Buckley depicted Yale as a great university that claimed to uphold American values of individualism and Christianity, while inculcating the opposite. He made detailed criticisms of books, professors, courses, and their overwhelming leaning toward collectivism and secularism. He ended by calling on the alumni to challenge Yale's policies. Although Mr. Buckley's publisher, Henry Regnery, had planned a huge publicity campaign, the book caused such a furor in the academic community and the press that no further promotion was needed. *God and Man at Yale* sold over 40,000 copies in hardcover, and has averaged sales of about 900 a year in Regnery-Gateway paperback.

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