



AMERICANS FOR TAX REFORM

P O L I C Y B R I E F

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Time for a Tax Cut

By
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E X E C U T I V E S U M M A R Y

President Bush's tax cut proposal is well-crafted to increase economic growth, whether in good economic times or bad. Because the economy is now at a crucial juncture, and a tax cut could make the difference between a slowdown and a recession, President Bush's proposal is especially well-timed.

The most powerful economic effect of the Bush proposal would result from the marginal tax rate reductions. Economic decisions are heavily influenced by how taxes change at the margin, for that determines the reward a person will receive for economic activity. Lower marginal tax rates increase the reward for work, saving, investment, entrepreneurship and risk-taking. The lower rates in the Bush plan will encourage all these activities and increase economic growth.

The great power of these economic effects was shown by the Kennedy tax rate cuts of the early 1960s and the Reagan tax rate cuts of the early 1980s, both of which produced a

powerful economic boom over the ensuing decade. The Bush tax cut plan would do the same for the rest of this decade as well. This history of the Kennedy and Reagan tax cuts establishes a bipartisan tax policy to enhance economic growth, which should be followed by both parties today.

Another beneficial economic push will result from the elimination of the death tax. This tax is part of the harsh multiple taxation of returns from savings and capital that is so counterproductive in our tax code today. Eliminating the death tax will increase savings, capital investment, jobs, income and overall economic growth.

Opponents of the Bush tax plan complain that it is unfair because it is tilted too heavily towards the rich. In fact, it is tilted towards low- and moderate-income taxpayers. Marginal income tax rates for those workers would be cut by a higher percentage in the Bush plan than the rate cuts for higher income workers. Our income tax code does not favor the rich today and will not after the Bush tax cut goes into effect.

For decades, the standard analysis for national economic policy offered by the liberal left and the Democratic Party was Keynesian economics. Under Keynesian analysis, deficits stimulate economic growth and budget surpluses reduce growth. Indeed, Keynesian analysis suggests that recent large surpluses may be the chief cause of the current economic slowdown. This should be a major, overwhelming reason for Democrats and liberals to support the proposed tax cut.