With Tax Reform, Why Are They Trying to Reinvent the Wheel?

When it comes to tax cuts, there's no need to reinvent to wheel. We already know what works.

Inaugurated as the 40th President of the United States in January 1981, Ronald Reagan inherited the worsening stagflation of the 1970s, a deteriorating economy with simultaneously escalating unemployment and escalating inflation.

The misery index, the unemployment rate plus the inflation rate, an indicator of how the population is doing economically, with a higher number signifying larger economic and social costs, increased steadily during the pre-Reagan Carter presidency, reaching a post-World War II peak of 20.76 in 1980, up from 13.55 in 1977, 13.69 in 1978, and 17.07 in 1979.

In the Keynesian economic analysis, the trade-off between unemployment and inflation, as illustrated by the Phillips Curve, shows the cure for unemployment is a growing economy with a negative side effect of more inflation while the cure for inflation is a slowing economy with a negative side effect of more unemployment.

In the economy inherited by Reagan, with both inflation and unemployment already at high levels and getting worse, the Keynesian prescription for less inflation and less joblessness was less growth and more growth, respectively, a contradictory and subsequently unworkable remedy.

Instead, what worked in delivering a strong economic turnaround, replacing high unemployment, high inflation and an elevated misery index with higher GDP growth, lower joblessness, lower inflation, less poverty and overall greater economic well-being in both the 1960s and 1980s were the Kennedy and Reagan tax cuts.

Kennedy's cuts in tax rates, proposed in 1962 and enacted by Congress and signed into law in February 1964, three months after Kennedy's assassination, reduced overall income tax rates by 20 percent, dropped the top marginal tax rate on income from an anti-growth and confiscatory rate of 91 percent to 70 percent, cut the tax rates on capital gains and dividends, and reduced the corporate income tax rate from 52 percent to 48 percent.

Coming off a major recession in 1957-1958 with the misery index peaking at 9.57 in 1958, the unemployment/inflation misery index declined in the first two years of the Kennedy presidency to 7.76 in 1961 and 6.77 in 1962.

Following the enactment of the Kennedy-formulated tax cuts in 1964, the misery index further declined to 6.44 in 1964 and 6.10 in 1965, an improved misery index number that was unmatched over the next five decades.

In the same way, the misery index, measuring the combined economic burdens of unemployment and inflation to the population, declined steadily during Reagan's presidency, dropping nearly in half from 17.97 in 1981 to 9.57 in 1988.

The improved economic performance and prosperity of the 1980s was launched and strengthened by tax reforms that cut capital gains taxes, lowered tax rates 25 percent across-the-board, benefitting all income groups, reduced the corporate income tax rate, indexed tax rates for inflation to end "bracket creep," and reduced the top marginal tax rate on income from 70 percent to 50 percent in 1981 and further to 28 percent in 1986, in sum generating the largest and longest period of wealth creation in U.S. history.

The tripling of the stock market from 1982 to 2000 raised the net wealth of U.S households by approximately $30 trillion, inflation-adjusted median household income rose by 12 percent in the 1980s, reversing widespread inflation-adjusted income declines in the 1970s, and the American economy overall was one-third larger by the conclusion of the Reagan presidency in 1989 than at its beginning in 1981.

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