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# TAX RATES, FAIRNESS, AND ECONOMIC GROWTH: LESSONS FROM THE 1980s

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## INTRODUCTION

One year after a record tax and spending increase, the American economy is reeling. Two million Americans have lost their jobs, personal and business bankruptcies are at all time highs, and family incomes are falling. With little prospect of a strong recovery in the near future, policy makers are coming to realize that actions must be taken to jump-start the economy. A consensus is emerging that tax relief is necessary—perhaps even the key—to restoring economic growth, but the proposals now before Congress rely on radically different approaches to the problem.

Some legislators continue to believe that the current recession is the culmination of Ronald Reagan's policies, particularly his tax cuts. These lawmakers, led by Senator Albert Gore of Tennessee and Representative Thomas Downey of New York, both Democrats, have introduced legislation (H.R. 2242, S. 995) that would grant tax relief to low-income families but sharply increase marginal tax rates for higher-income taxpayers. Supporters of this legislation assert that Reagan's economic policies hurt the poor and therefore would amend the tax code to achieve more "fairness" and income equality as well as, they hope, to trigger economic growth.

**Tax Cut Remedy.** Other legislators believe the recession is due at least in part to last year's record tax increase. These legislators believe that the way to rejuvenate the economy is to enact tax cuts that would increase incentives to work, save, and invest. The Economic Growth and Jobs Creation Act (S. 381, H.R. 960), introduced by Senator Malcolm Wallop, the Wyoming Republican, Representative Tom DeLay, the Texas Republican, and Representative Robin Tallon, the South Carolina Democrat, would re-

*Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.*

duce payroll taxes, lower the capital gains tax, expand Individual Retirement Accounts, and cut taxes on business investment.

Supporters of the Wallop-DeLay-Tallon bill point out that America enjoyed its longest-ever period of peacetime economic growth after Ronald Reagan's tax cuts took effect, and that the income of all segments of the population rose sharply in the 1980s. These advocates of "supply-side" economics reject the notion that tax cuts for some Americans must be offset by tax increases for others. In fact, they argue that such an approach likely will reduce revenues to the United States Treasury, leading to higher budget deficits and pressure to impose higher taxes on all income groups.

**Reagan Success.** As lawmakers consider these and other tax relief plans, they would do well to learn the public policy lessons of the 1980s. By every measure of prosperity, Reaganomics worked. Some twenty million new jobs were created. Inflation was brought under control. And inflation-adjusted income rose for all segments of the population. Much of the credit for this spectacular economic performance goes to the 1981 Economic Recovery Tax Act, which cut tax rates across the board for individuals and reduced the tax burden on business.

If policy makers want to restore economic growth, they should heed the following lessons of the 1980s:

**Lesson #1: Economic growth is the best weapon against poverty.**

**Lesson #2: Economic growth is stimulated by low taxes, particularly low marginal rates.**

**Lesson #3: The poor get richer when the rich get richer.**

**Lesson #4: If the aim is to make the rich pay more actual taxes, cut their tax rates.**

**Lesson #5: Raising taxes on the rich does not help the poor.**

**Lesson #6: Increased Social Security taxes have wiped out the benefits of Reagan's tax cuts for many Americans.**

**Lesson #7: Hiking taxes does not lower the budget deficit, it raises it.**

While there is much about the U.S. economy that economists cannot explain, the current recession is no mystery. For nearly six months last year, politicians debated which taxes they should raise. This created uncertainty in the financial markets, lowered consumer confidence, and undermined investors' faith in the future. The prolonged debate resulted in the Bush Administration and congressional Democrats agreeing to saddle workers, consumers, and businesses with the largest single-year tax increase in America's history. When combined with then enactment of costly new regulatory legislation such as the Clean Air Act and the Americans with Disabilities Act, this tax increase was a body blow to an already fragile economy.

Reducing the tax burden alone will not undo all the economic policy mistakes of the last two years, but a strong economic recovery is unlikely in the absence of a pro-growth tax package. Not all tax cuts, however, are created equal. The Wallop-DeLay-

Tallon and Gore-Downey tax bills are radically different. Fortunately, lawmakers need only look back over the last fifteen years to determine which approach will work.

## THE ECONOMIC BOOM OF THE 1980s

During the 1980s Americans enjoyed an unprecedented economic boom. Reagan's Economic Recovery Tax Act of 1981 set the stage for this record expansion by reducing the tax penalty against business investment and sharply reducing, in three stages, income tax rates for individuals. Once the tax rate reductions were fully phased in, the economy took off.

Not only did Reaganomics produce the longest expansion in America's peacetime history, it did so while simultaneously reducing inflation, a feat that many economists believed could not be accomplished. Reducing marginal tax rates, along with regulatory relief and sound monetary policy, proved to be a potent prescription for an ailing economy. During the Reagan boom, inflation-adjusted gross national product (GNP) rose 32 percent and median family income hit record levels. Thanks to the creation of twenty million new jobs, the proportion of the U.S. population holding jobs reached a new record of 63.1 percent.

**Refuting Critics.** When first proposed, many critics rejected the central tenet of Reaganomics—that lower marginal tax rates would increase incentives to work, save, and invest, and thus would ignite an economic expansion that would improve the living standards of all Americans. These critics maintained that increased government spending is the engine that drives the economy. Tax cuts, by contrast, were condemned as inflationary. The record expansion with lower inflation which followed the Reagan tax cuts conclusively refuted these critics.

Broad statistics, however, do not present a complete picture of the economic situation in the 1980s. The untold story is how low taxes benefitted those Americans who traditionally had not enjoyed the fruits of the country's prosperity. Income levels for almost every demographic group had begun to decline sharply in the late 1970s. But once Reagan's policies took hold, the statistics reversed. Inflation-adjusted median household income for black Americans, for instance, jumped by 16.5 percent between 1982 and 1989, after declining by 10.2 percent between 1978 and 1982.

Women also realized significant benefits from Reaganomics. Their inflation-adjusted median income climbed by more than 28 percent between 1981 and 1989, after declining by 2.9 percent between 1977 and 1981.[1] And while some critics maintain

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1 Economists continue to debate what year marks the beginning of Reaganomics. Some say 1980, when Reagan was elected President. Many use 1981, since that was the year that Reagan actually took office. Others note that the budget for fiscal 1981 already had been signed into law by Jimmy Carter before Reagan was inaugurated. Reagan's first budget was for fiscal 1982. Some economists contend, however, that Reaganomics did not begin until 1983, the first year in which the tax rate reductions were fully phased in. There is no completely accurate answer to this controversy. What is safe to say, and is supported by the statistics cited in this study, is that after beginning to decline in the late 1970s, most measures of economic well-being recovered in the early 1980s and improved dramatically throughout the decade.

that the poor suffered under Reagan, the average inflation-adjusted income of the bottom 20 percent of families rose 11.9 percent between 1982 and 1989. By comparison, the same income group saw their inflation-adjusted incomes decline by 12.7 percent from 1978 to 1982.

Despite the economy's spectacular performance during the 1980s, many lawmakers were determined to reverse Reagan's policies. Indeed, almost from the moment the Economic Recovery Tax Act was signed into law in 1981, lawmakers on Capitol Hill pushed for higher taxes, succeeding on several occasions during the 1980s. The ill effects of those tax hikes, however, were at least partially offset by further tax rate reductions included in the 1986 Tax Reform Act. As a result, reduced tax rates helped assure that the record economic expansion was still going strong when George Bush was inaugurated in 1989.

## THE 1990 BUDGET FIASCO

It did not take long for Congress and the new Administration to reverse many of Reagan's accomplishments. A relatively small $5.6 billion tax increase in 1989 was followed by the 1990 budget summit agreement. The uncertainty created by nearly six months of summit negotiations and the eventual imposition of nearly $200 billion of new taxes over five years was a major cause of the recession. Just as tax cuts helped spark the longest peacetime expansion in America's history, the largest tax increase in history helped bring the economy to a shuddering halt.

Supporters of the 1990 budget agreement, which set spending and tax policies for 1991 and beyond, claimed the tax hike was needed to reduce budget deficits, then projected to exceed $150 billion in 1991. Opponents of the budget package warned that budget summits in 1982, 1984, 1987, and 1989 all resulted in higher taxes ostensibly designed to reduce the deficit, yet in every case the budget deficit rose the following year. Opponents also warned that a major tax increase would throw the economy into recession. They further predicted that Congress simply would spend the new tax revenues.

They were right. The budget deficit climbed to nearly $300 billion in 1991, the first year of the agreement, and is now projected to reach record $350 in billion fiscal year 1992 largely thanks to record increases in domestic spending. And a sharp recession is expected permanently to lower living standards for all income classes compared to what they would have been had the economy's growth not faltered.[2]

**Ignoring History.** Ironically, even though the dismantling of Reagan's economic legacy ended the expansion and pushed the economy into recession, some lawmakers assert that additional tax increases somehow will strengthen the economy. Other lawmakers apparently believe that while Congress should cut taxes for some Americans, it should raise taxes on others. Still other politicians argue that the best way to help poor citizens is to increase taxes on wealthier Americans.

2 See Larry Hunter, "The Never-Ending Recession," *The Wall Street Journal*, September 19, 1991.

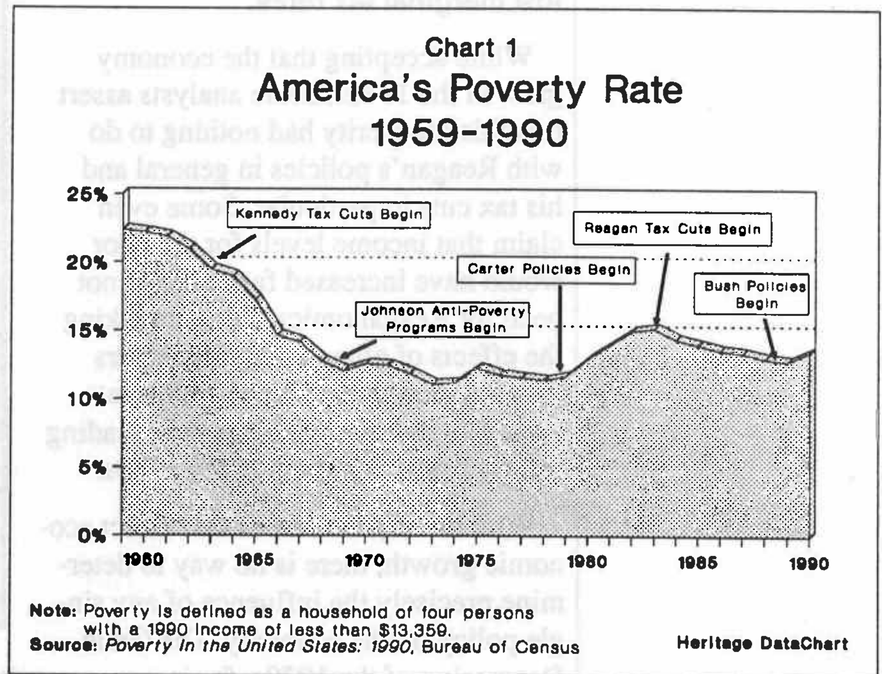
Lawmakers who support these policies claim "fairness" requires income redistribution, higher taxes, and more government spending. America's less fortunate citizens, however, historically have not fared well under such policies. If lawmakers truly are interested in helping the poor, they should adopt policies to promote economic growth, not redistribute income. Whether measured by job creation, income growth, the poverty rate, or any other indication of living standards and prosperity, the poor have done best in years when the economy expands.

## THE CHOICE FOR CONGRESS

Policy makers now face what should not be a difficult choice: Do they return to the pro-growth policies of the 1980s? Or, do they replicate the mistakes of the 1970s, heaping additional taxes and regulations on an economy already staggering under a record tax burden and an unprecedented wave of expensive regulation? The lessons of the 1980s provide an easy answer.

### Lesson #1: Economic growth is the best weapon against poverty.

Many politicians in Washington would like Americans to believe that poverty can be cured by more federal programs. In reality, high increases in spending have had little impact on poverty, and may have exacerbated the problem. It was only after the so-called War on Poverty began in the mid-1960s that the poverty rate, which had been falling rapidly and steadily since the early 1950s, leveled off. Like other measures of economic distress, the poverty rate began to rise in the late 1970s, rising from 11.4 percent in 1978 to 15.2 percent in 1983. It began to fall, however, once Reagan's policies took effect, dropping to less than 13 percent by 1989.[3]




3 Census Bureau statistics routinely overestimate poverty in the United States. It probably safe to assume, however, that changes in the poverty rate do reflect whether poverty is rising or falling, even if the totals are exaggerated. See Robert Rector, Kate Walsh O'Beirne, and Michael J. McLaughlin, "How Poor Are America's Poor," Heritage Foundation *Backgrounder* No. 791, September 21, 1990, and Robert Rector, "Why the New Census Report Will Overstate Poverty," Heritage Foundation *Executive Memorandum* No. 309, September 23, 1991.

Other measures of the economy's performance reveal similar trends. For example, inflation-adjusted average household and family income statistics for the poorest fifth of the population indicate that low-tax policies in the 1980s raised living standards for less fortunate Americans. The incomes of poor households stagnated for much of the 1970s, began to decline sharply in the late 1970s, and rebounded only after Reagan's tax cuts were fully in place. If the 1990 numbers are the beginning of a new trend, it appears that high tax-and-spend policies under the Bush Administration will have the same damaging impact on Americans as Jimmy Carter's big government policies.

**Table 1**
**Average Income for Poorest Fifth of U.S. Households**
**(In 1990 dollars)**

| Year | Income of Households | Change In Dollars |
|---|---|---|
| 1973 | $7,039 | — |
| 1974 | 7,008 | -31 |
| 1975 | 6,765 | -243 |
| 1976 | 6,935 | +170 |
| 1977 | 6,897 | -38 |
| 1978 | 7,135 | +238 |
| 1979 | 7,075 | -60 |
| 1980 | 6,845 | -230 |
| 1981 | 6,676 | -169 |
| 1982 | 6,549 | -127 |
| 1983 | 6,631 | +82 |
| 1984 | 6,838 | +207 |
| 1985 | 6,819 | -19 |
| 1986 | 6,886 | +67 |
| 1987 | 7,055 | +169 |
| 1988 | 7,143 | +88 |
| 1989 | 7,732 | +229 |
| 1990 | 7,195 | -177 |

**Source:** *Money Income of Households, Families, and Persons in the United States: 1990*, Bureau of the Census.
**Note:** Shaded areas indicate increases.

### Lesson #2: Economic growth is stimulated by low taxes, particularly low marginal tax rates.

While accepting that the economy grew in the 1980s, some analysts assert that this prosperity had nothing to do with Reagan's policies in general and his tax cuts in particular. Some even claim that income levels for the poor would have increased faster had it not been for Reaganomics. Yet after taking the effects of other economic factors into account, the evidence still points clearly to low-tax policies as the leading cause of record growth in the 1980s.

With the myriad forces that affect economic growth, there is no way to determine precisely the influence of any single policy on the economy. The Great Depression of the 1930s, for instance, resulted in part from poor monetary policy and trade protectionism. Herbert Hoover's decision in 1932 to raise taxes in the middle of the economic downturn doubtlessly exacerbated the economy's contraction. But it cannot be said with precision how much the tax increase contributed to the Depression.

The economic decline which began in the late 1970s also was partially due to high taxes. But other factors such as inflation and excessive government regulation of businesses contributed to the stagflation which plagued America. Similarly, while the

1980s expansion may have been triggered by Reagan's tax cuts, policies of deregulation and monetary reform certainly deserve some credit for the boom.

The evidence strongly indicates, however, that reducing taxes, particularly marginal rates, had a major impact on the economy. The three periods of major tax rate reduction in the U.S.—the 1920s, the 1960s, and the 1980s—were all periods in which lengthy and robust economic expansions followed tax cuts. By contrast, tax increases have been followed by weak economic conditions. In the 1930s, higher tax rates were associated with economic hard times. In the late 1970s, tax rates were hiked indirectly, as inflation pushed taxpayers into higher brackets even though their real incomes remained constant or even declined. And, of course, the tax rate increases in last year's budget deal already have hobbled the economy and may signal the beginning of a longer period of stagnation.

**Lesson #3: The poor get richer when the rich get richer.**

Advocates of income redistribution through the tax code tend to assume that the amount of wealth in a society somehow is fixed. In this static view of the world, one person can become better off only at the expense of another. Similarly, the assumption

**Table 2**

**Percentage Change in Average Household Income by Income Class**

**(In 1990 Dollars)**

| Year | Bottom Fifth | Second Fifth | Middle Fifth | Fourth Fifth | Top Fifth | Top 5 Percent |
|---|---|---|---|---|---|---|
| 1978-82 | -8.2% | -5.4% | -5.2% | -3.8% | -1.1% | -3.2% |
| 1981-89 | +10.4 | +10.3 | +10.7 | +12.3 | +22.9 | +33.6 |
| 1982-89* | +12.6 | +10.7 | +11.1 | +13.0 | +20.5 | +28.8 |
| 1989-90 | -2.4 | -1.7 | -2.3 | -2.6 | -3.3 | -4.7 |

**Note:** Shaded areas indicate increases. *Reagan tax cuts take effect.
**Source:** *Money Income of Households, Families and Persons in the United States: 1990*, Bureau of the Census.

is that if the rich get richer then the poor must become poorer. This view of the world, however, is completely at odds with the evidence. As Table 2 indicates, the fortunes of all income classes tend to rise or fall together.

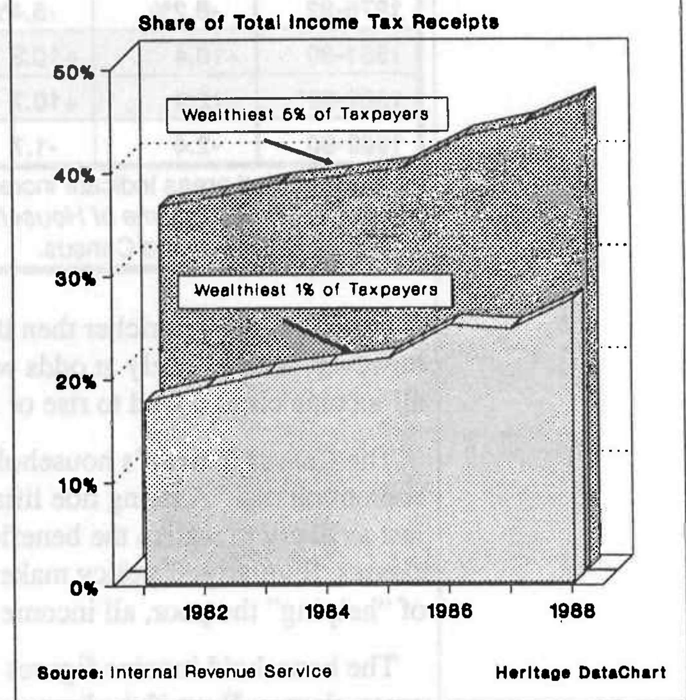
The Census Bureau's household income statistics underscore John F. Kennedy's contention that "A rising tide lifts all boats." When the economy prospers, the poor are just as likely to realize the benefits of economic growth as are those in higher income classes. Similarly, if policy makers adopt anti-growth policies, for the stated purpose of "helping" the poor, all income groups suffer.

The household income figures also indicate that the Reagan years benefitted all income classes. Even if the base year used is 1981—before the Reagan tax cuts were phased in—the figures show significant income gains for all segments of the population during the 1980s. By contrast, periods of increase taxation, including both the Carter and Bush Administrations, are associated with falling average incomes for all groups.

Some critics condemn economic policies of the 1980s because wealthier citizens' incomes rose faster than did the incomes of the least affluent fifth. While true, this criticism overlooks one very important fact: poorer Americans' incomes increased in real terms during the 1980s. If a goal of policy makers is to improve living standards for the poor, the Reagan policy of reducing tax rates on the rich as well as the poor did more to improve the standard of living of low-income households than the high tax policies of the Carter and Bush Administrations.

**Lesson #4: If the aim is to make the rich pay more taxes, cut their tax rates.**

Critics of Ronald Reagan assert that tax rate cuts in the 1980s meant wealthy Americans paid less than their fair share of taxes. Indeed, Robert S. McIntyre of Citizens for Tax Justice, a Washington, D.C.-based research organization, contends tax breaks for the rich during the 1980s are the sole cause of today's budget deficit.[4] Yet the assumptions required to support this assertion border on the absurd. To achieve his results, McIntyre takes 1977 tax rates and applies them to current income levels to determine the size of the tax cut received by the rich. In other words, his "model" just assumes that the economy would have expanded just as much had the top tax rate stayed at 70 percent, rather than being cut to 28 percent during the Reagan years. The "model" also conveniently assumes that wealthier taxpayers would earn and report just as much income with 70 percent tax rates as they are projected to earn and report next year with tax rates at 31 percent.




Not surprisingly, Internal Revenue Service statistics paint a very different picture. According to IRS data, wealthier Americans are now paying a far larger share of the total tax burden today than they were before the Reagan tax cuts. As Chart 2 reveals, the richest one percent of U.S. taxpayers shouldered 27.5 percent of the total income tax burden in 1988, up from 17.6 percent in 1981. The proportion of the income tax burden paid by the top five percent jumped from 35.1 percent in 1981 to more than 45 percent in 1988.

4 Robert S. McIntyre, "Borrow 'N' Squander," *The New Republic*, September 30, 1991.

Confronted by these statistics, some critics complain that the rich are paying a higher portion of the income tax burden only because their incomes rose so dramatically during the 1980s when compared with those of other Americans. Yet this is precisely what advocates of low tax rates predicted would happen. Once marginal tax rates were reduced, they said, the incentive to work, save and invest would increase, while the attractiveness of tax shelters would be reduced. As a result, taxable income would increase significantly. Moreover, as Lesson #3 explains, this income gain did not come at the expense of other groups of Americans. Incomes for all groups rose during the 1980s.

**Lesson #5: Raising taxes on the rich does not help the poor.**

With the economy in recession and the burden of federal taxes at an all-time high, according to the Washington, D.C.-based Tax Foundation, some policy makers finally have concluded that tax relief is needed. For example, Senator Albert Gore of Tennessee and Representative Thomas Downey of New York, both Democrats, have introduced legislation which would, among other things, lower taxes on families by creating an $800 tax credit for each child (H.R. 2242, S. 995). Senator Lloyd Bentsen of Texas and Representative Dan Rostenkowski of Illinois, the Democratic Chairmen of the tax-writing committees in each chamber, are rumored to be drafting similar legislation. That is the good news.

The bad news is that the Gore-Downey legislation also raises the top income tax rate to 36 percent, from today's 31 percent, and imposes an additional 15 percent surtax on upper income taxpayers. The combined effect of these two provisions would push marginal tax rates to more than 40 percent for certain taxpayers. While this boost in the top rate allegedly is designed to promote "fairness" and offset the revenue loss caused by the tax credit for children, neither goal will be satisfied if history is an accurate guide.

Increasing the top tax rate by approximately one-third, as the Gore-Downey bill would do, means reducing significantly the prospects for a strong recovery from the current recession. As Lesson #1 illustrated, the poor are most dependent on economic growth for their well being. Thus while the Gore-Downey bill might in the short term benefit those taxpayers eligible for the tax credit, the package would in the long term hurt lower-income households because higher marginal tax rates mean economic growth would slow down, fewer jobs would be created, and living standards would decline. Supporters of the Gore-Downey legislation fail to understand what has become so evident to the emerging democracies of Eastern Europe; it is better to promote the creation of wealth than it is to attempt to redistribute it.

**Flawed Calculations.** The Gore-Downey redistribution legislation is based in part on deeply flawed calculations used by the Congressional Budget Office (CBO). The CBO uses estimates that predict higher tax rates will generate revenue to offset the losses to the Treasury caused by the children's credit. But the static model used by the CBO assumes taxpayer behavior is unresponsive to changes in the tax code. As a result, even huge increases in tax rates are projected to raise large amounts of new tax revenue according to the CBO model.

Practical experience refutes this. Last year's tax increase, for instance, initially was projected by CBO to raise nearly $200 billion in revenues by 1995 above and beyond

the revenue growth otherwise projected to occur. Recent CBO budget projections, however, now estimate that revenue in the 1991-1995 period will be lower than that projected for the same period in the summer of 1990—before last year's tax increase was enacted. The Congressional Budget Office blames attributes this huge revision to "economic" and "technical" factors.

**Lesson #6: Increased Social Security taxes have wiped out the benefits of Reagan's tax cuts for many Americans.**

Despite the reductions in marginal tax rates enacted in 1981 and 1986, total federal tax rates, the percentage of income paid to Washington through direct taxation, actually are higher today for middle class Americans than they were before Ronald Reagan became President. Meanwhile, total federal tax rates have declined for the richest taxpayers. This has led some policy makers to condemn the Reagan tax cuts as a giveaway to the rich at the expense of the poor.

Federal income tax rates for all income classes were reduced by the Reagan tax cuts and remain lower today than they were under the Carter Administration. The reason total federal tax rates have increased for many taxpayers is because of rapidly escalating payroll taxes. In other words, income tax rate reductions for many Americans have been completely wiped out by increases in Social Security and Medicare taxes. To add insult to injury, the Social Security system collects far more money than is needed to pay retirement benefits. Most Americans assume the surplus funds are put into an account, safely tucked away and drawing interest to help pay retirement benefits for future generations. In reality, Congress spends every penny of this money on other government programs, leaving nothing but IOUs in the Social Security Trust Fund.

Because wealthier taxpayers are less affected by rising payroll taxes, since there is a cap on the amount of income subject to such taxes, lower- and middle-income taxpayers have been harmed disproportionately by rising payroll taxes. The important question, of course, is how to address this inequity. Some legislators apparently believe higher income taxes on richer taxpayers are the way to offset high tax rates on the middle class. These politicians overlook, of course, the fact that raising taxes on upper-income Americans will do nothing to lower the payroll tax burden on less affluent citizens.

The pro-growth solution to high effective tax rates is to reduce Social Security payroll taxes. Not only would the reduction in these tax rates spur additional economic growth, it would put an end to the fiction of the Social Security Trust Fund.[5]

**Lesson #7: Hiking taxes does not lower the budget deficit, it raises it.**

Perhaps the most important lesson of all to learn from the 1980s is that tax increases lead to higher rather than lower budget deficits. Tax increases were imposed on the American people in 1982, 1984, 1987, 1989, and 1990. On each occasion the legisla-

5 Daniel J. Mitchell, "The Facts About Cutting Social Security Taxes," Heritage Foundation *Backgrounder* No. 817, March 15, 1991.

tion was accompanied by promises that the money would be used for deficit reduction. In every instance the deficit rose the following year.

The reasons for this are simple. Notwithstanding the Congressional Budget Office's simplistic, static model, higher taxes inhibit economic growth. As a result, even if a tax increase does bring in some additional revenue, this new money rarely if ever reaches the level predicted when taxes first are raised. This typical shortfall on the revenue side is compounded by the way in which the federal budget process works. Congress bases its spending decisions on how much money it expects to receive so boosts in spending invariably outstrip rises in revenue after a tax increase. Thanks to this process, last year's budget deal turned a $150 billion deficit into $350 billion of red ink in just two years.

## CONCLUSION

The impulse of many lawmakers to enact tax relief to counter the recession is understandable and sound. What is difficult to understand, however, is why some lawmakers think the way to improve living standards for the poor is to raise taxes on the rich.

Largely as a result of the 1990 budget summit, a strong expansion was turned into a recession in a remarkably short period. While some members of the Bush Administration claim that the President had to violate his promise not to raise taxes because Congress would have overridden his veto anyway, there was no evidence, before or after the budget summit, to support this assertion. The legislative branch, in fact, has never been able to raise taxes over the objection of a President.[6]

By caving in to pressure for higher taxes, the Bush Administration presented the big spenders in Congress with a long-awaited opportunity. As long as the President maintained his vow not to increase taxes, the American people resisted the siren song of tax fairness. But once the budget summit began, and the President was persuaded by members of his own Administration to accept a tax increase, many Americans understandably wanted the burden of any new taxes to fall on someone else's shoulders. Since few Americans consider themselves wealthy, regardless of their earnings, and since few Americans truly understand the relationship between tax rates and growth, proposals to "tax the rich" tend to be popular with voters.

The 1990 budget summit also was a victory for those lawmakers who viewed Reaganomics as a threat to the growth of government. For these lawmakers, the 1981 tax cuts had to be repudiated to restore the pre-Reagan political dynamic. Now, thanks to last year's budget deal, politicians once again can press for higher taxes and vote for more spending under the guise of tax fairness and deficit reduction.

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6 Congress actually did enact a tax increase over a presidential veto on one occasion. Franklin D. Roosevelt vetoed a tax increase because it was not as large as he desired. Rather than vote for an even larger tax hike, however, Congress overrode his veto.

**Tragic Cost.** The recession has imposed a tragic human cost. Two million Americans have lost their jobs, the poverty rate is climbing, and family incomes are falling. Sadly, the news may get worse. Yet under the deceptive rubric of tax fairness, some lawmakers want to compound the damage of last year's tax hike by further raising marginal tax rates. As the last fifteen years clearly show, however, the poor will not be helped by tax increases because the result will be slower growth.

**Choice for Bush.** George Bush already has presided over the slowest period of economic growth of any President since Franklin D. Roosevelt's first term. Whether the economy begins to recover may depend on what he does next. If Bush returns aggressively to the pro-growth policies of the 1980s, there is every reason to expect that the economy will respond as vigorously as it did during the Reagan boom. On the other hand, if Bush fails to make the case for low taxes, and to veto any tax increase legislation, America may face a decade of economic stagnation.

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