The Heritage Lectures

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A Tenth Anniversary Celebration of

The Kemp-Roth Tax Cuts: The Importance of America's Victory Over Washington

The Heritage Foundation

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The Heritage Foundation's Lehrman Auditorium
August 13, 1991

Opening Remarks

Dr. Edwin J. Feulner, Jr.
President, The Heritage Foundation

Videotaped Message from **President Ronald Reagan**

Panel Discussion

Dr. Richard W. Rahn
Vice President and Chief Economist, U.S. Chamber of Commerce

Dr. Paul Craig Roberts
William E. Simon Chair in Political Economy,
Center for Strategic and International Studies

The Honorable Jack F. Kemp
Secretary, U.S. Department of Housing and Urban Development

Reception Speakers

Horace Cooper
Legislative Assistant, Office of Representative Richard Armey

Krassimir Kostov
Second Secretary, Embassy of the Republic of Bulgaria

Grover Glenn Norquist
President, Americans for Tax Reform

Host Committee

American Conservative Union

American Legislative Exchange Council

Americans for Tax Reform

Cato Institute

Citizens for a Sound Economy

Council for Citizens Against Government Waste

Eagle Forum

Family Research Council

Free Congress Foundation

The Heritage Foundation

The National Center for Public Policy Research

National Taxpayers Union

Prosperity Caucus

U.S. Chamber of Commerce

The Kemp-Roth Tax Cuts:
The Importance of America's Victory Over Washington

Dr. Edwin J. Feulner, Jr., President, The Heritage Foundation: Good evening ladies and gentlemen, I am Ed Feulner. On behalf of all of my colleagues at The Heritage Foundation and all of our co-sponsoring organizations, it is a real treat to welcome you here today.

We celebrate the tenth anniversary of the Kemp-Roth tax cut bill. The bill was of course signed exactly ten years ago today. It introduced a decade of prosperity and economic growth, more than 20 million net new jobs. But, in fact, it was a lot more than that. It was a victory over pessimism, over the notion that the history of the United States would be ever worsening for future generations. It was the year that America defeated Washington. It proved that sound economic ideas, coupled with hard work, could succeed in this day and age. To us conservatives, it rebuilt the coalition—traditionalists, libertarians, neo-cons, paleo-cons and everybody in between came back together into a powerful movement with this one fundamental idea.

Our work, our coalition, also had global ramifications—in Eastern Europe, throughout the Soviet Union and the republics of the Soviet Union, throughout the Third World. Individuals all around the world learned that they were inspired by the United States, and that they would not have been inspired by the United States patterned after the late 1970s when the economy was sluggish and our nation was dispirited. Those who participated in the revolutions that culminated in 1989 and continue today throughout Eastern and Central Europe saw that the economic liberty that was produced in the United States could also be replicated elsewhere around the world; they wanted it for themselves.

Even as we shake our heads in disappointment over the tax hikes of the Bush Administration, we also remember that no battles are won or lost in a single day; there is no such thing as a permanent victory or a permanent defeat in Washington.

Today we have a model for success — the Kemp-Roth tax bill. And it has been buttressed by a decade of proof, a decade of economic expansion and prosperity the longest peace-time economic expansion on record.

This evening's program is going to begin with a videotaped message from President Reagan, around whom all of us rallied to bring about these tax cuts.

> **Ronald Reagan:** Hello. I'm delighted to greet so many friends and allies gathered at The Heritage Foundation to celebrate the Economic Recovery Tax Act of 1981. As you know, ten years ago today I signed into law a revolutionary tax-cutting measure that allowed Americans to keep more of their own money, and to more freely make decisions for their family's well-being. The critics, of course, were adamant that it would never work — they maintained that, somehow, the government knew better how to spend the family's money than did the family.
>
> Well, the critics were dead wrong. That tax cut, sponsored in Congress by then Representative Jack Kemp and Senator Bill Roth, helped usher in the greatest peacetime economic expansion in American history. Twenty million new jobs were created, real national income rose 32 percent, and millions of new businesses were started. We knew all along that tax cuts would prompt Americans to work harder, to invest, to become entrepreneurs, or just to spend more of their own money as they saw fit.

Now that tax cut didn't just benefit the American family, as important as that is — it was at the heart of a plan we had ten years ago to stimulate investment in America. And it's that tax cut that helped bring interest rates down, strengthen the dollar, cut inflation, and once again make America the best place in the world to invest.

And you know, the dramatic tax cut of ten years ago not only helped redefine the role of government in the U.S. economy, but it also had global implications. The success of the tax cut at home challenged and eventually forced other countries to change many of their own impediments to economic growth. And I think that the inspiration of a growing, prosperous America is what finally encouraged so many freedom fighters around the world to throw off the shackles of communism, and still encourages others bound by totalitarianism.

It's particularly appropriate that this event, in honor of one of the most significant tax reductions in American history, is being held now, because it draws attention to the importance of tax reduction to a strong economy. Many of the tax battles were won in the 1980s, but unfortunately, the war isn't over. Even now, the drum beat for new taxes is continuing on Capitol Hill. This is despite the fact that the tax hikes of last fall are already proven failures, which cost Americans millions of jobs and actually lost revenue for the government. When will Washington learn? When you tax production and growth, you get less of both.

So even now, after so much success, we must be ever vigilant against the arm of government reaching further into our lives and into our pockets. I encourage all of you to stand firm against higher taxes that cripple the family and the economy, to put the tax-and-spenders on the defensive, and to continue to press for lower rates and more individual freedom.

I especially thank Secretary Kemp and Senator Roth for their work in helping us bring about the prosperity of the 1980s. I know that many others of you here today were very instrumental in that battle, and I thank you. Continue the good fight, and tonight, have a wonderful celebration of a job well done.

Dr. Feulner: Let me read a letter from the other half of Kemp-Roth, Bill Roth, who unfortunately could not be with us today:

> Though I can't be with you today I'd like to join you in spirit in celebrating the tenth year anniversary of the Kemp-Roth tax cuts. These tax cuts laid the foundation for the longest peacetime expansion in U.S. history. Under the tax cut program, America escaped from the malaise of stagflation. Our economy expanded by one-third since 1981, and real family income increased for all Americans. Ten years, and almost twenty million jobs later, the economic success of the tax cuts will mark them as a turning point in American economic history.

In closing, I'd like to thank my partner, Jack Kemp, President Ronald Reagan and the conservative movement for making our tax cut program a success.

In the decade ahead we will need to apply this successful approach we used in 1981.

Sincerely,
Bill Roth

Ladies and gentleman, we are indeed fortunate to have with us today three distinguished panelists who, in different ways, made the idea of the tax cuts of 1981 a reality. They were the brain trust behind Kemp-Roth during the Carter economy's dark days.

First, Dr. Richard Rahn, one of the original supply-siders. In the mid-1970s he worked with Art Laffer and David Ranson to develop one of the first supply-side models of our economy. He serves now as Vice President/Chief Economist at the U.S. Chamber of Commerce, and has held that position since 1980. In 1981 he served as a member of President Reagan's Tax Policy Task Force.

At the Chamber he coordinated the business community's lobbying effort in support of Kemp-Roth. And as Chief Economist, he manages the Chamber's economic policy division and is their spokesman before Congress, the national news media, and other groups on economic and tax policy issues.

He's also broadened his horizons beyond the United States, and it should be noted that during 1990 he spent a great deal of his time in Bulgaria trying to transform it into a free market paradise. The only problem was, while he was gone someone was not watching the store back here in Washington; and therefore, there are petitions to deny Richard Rahn any more visas anywhere else to make sure he stays here to keep things on track in the United States. Richard?

Dr. Richard Rahn, Vice President and Chief Economist, U.S. Chamber of Commerce: Thank you Ed. I think that last remark of yours was written by Dick Lesher, who is here and keeps saying he needs help here with the war against increased taxes, regulation and government spending.

Ten years ago what kind of odds would you have given me if I told you that in 1988 the most liberal Democratic candidate for the U.S. Presidency, Jesse Jackson, would be advocating a tax rate of 38 percent as the highest marginal tax rate on the rich in America. You probably would have given me very long odds. If I had been smart enough to have done that, I could have been a rich man by now.

Well, it is ten years later. We have won a number of battles, but we certainly have not won the war. And I think back about what our critics claimed. During the 1970s, as most of you in this room know because so many of you were deeply involved, it was lonely out there for us. We were highly ridiculed, particularly Jack, for wanting to reduce the maximum marginal tax rate from 70 down to 50 percent. When the tax cuts were proposed, Jack and all the rest of you were under constant attack. Such things were claimed by our critics as, "The tax cuts will be inflationary." I remember the *Washington Post* editorial page day after day after day; this was an endless drum beat.

In fact, the dean of the Keynesian economic establishment, Lyndon Johnson's former Chairman of the Council of Economic Advisors, Gardner Ackley said, "What I am ready to predict and to promise, is the effect of the President's program will not be as he so confidently and repeatedly predicts to cut the present inflation rate by more than half. What other effects it would have on the inflation rate surely would work in the opposite direction, unless there is a great deal to the supply-side argument. The Administration's projection is that inflation in the Consumer Price Index would decline from 11.1 percent in 1981 to 4.2 percent in 1986. That, I think, would truly be a miracle." Of course, the actual effect was that inflation dropped to 1.1 percent in 1986.

We were told by the critics that growth would fall, that we would have an immediate, economic collapse, there was no chance for an economic turn-around. I remember Norman Ture and Jude Wanniski and many of the rest of you having to do battle on that. And we have this great quote from Lester Thurow, again, one of the leading Keynesian economists. He said, on October 17, 1982, in *The New York Times Magazine*: "The engines of economic growth have shut down here across the globe. And they are likely to stay that way for many years to come."

That was one month before the longest peacetime economic expansion in our nation's history began.

We were also told the rich would pay less in taxes. Of course, the tax burden in actual effect changed from the top five percent in 1979, paying a thirty-eight percent of the total income tax burden, to paying forty-six percent by 1988.

We were told the tax cuts would lose revenues. Well, tax receipts went from $600 billion in 1981 to $991 billion in 1989. And of course, the fact of the matter is that the low-income people did have their total tax burden reduced, but the upper-income did take a much greater share of the tax liabilities. We were told this would greatly increase the deficit. Well, the deficit went from 4.1 percent of GNP in 1982 (the year before the tax cut program went fully into effect) to only 3 percent in 1989. Unfortunately, it has now soared again.

What lessons have we learned? Well, the empirical evidence is overwhelming that lower tax rates, restraints on government spending, restraints on the growth of regulations leads to rapid economic growth and prosperity and a higher standard of living for virtually all Americans. The opposite is also true as, unfortunately, we are seeing now. Higher tax rates, more government spending, more regulation leads to stagnation or recession.

Most people around the world, as President Reagan just pointed out, have also learned this basic lesson. As a result of the Kemp-Roth cuts and the lessons learned, tax rates in virtually every major country throughout the world dropped. You mentioned Bulgaria. Well, I see Paul Weyrich and many others who have been working in Eastern Europe, and it is very interesting. The Eastern Europeans come to the people who were on the pro-growth side, and they are trying to learn their economic lessons from that. You hear no talk of Keynesism in Eastern Europe or the Soviet Union.

We have also learned, however, that the fundamental lessons of the Kemp-Roth success are not well remembered, or were never learned, by much of the American news media, much of the Congress, and even people in a Republican Administration. As one example, look at the flexible freeze which George Bush ran on in 1988, which all of us here endorsed. Vin Weber was a leader on that.

Well, what happened? They got away from it. They forgot the plan. So, by next year, according to Dick Darman's old budget projections, federal spending will be 18 percent higher in 1992 than that projected back in 1988, and tax revenues will be 8 percent lower. The deficit has gone