



## Myths of the 1980s Distort Debate over Tax Cuts

by Larry Schweikart

### Summary

Debate over President Bush's tax cuts often focused on the effects of President Reagan's across-the-board rate reductions of 1981-83. Tax-cut supporters bolstered their arguments by pointing to the economic growth spurred by Reagan's cuts, while opponents recycled a number of myths regarding the cuts, including that they didn't help the poor. An honest examination of the 1980s will better inform all future debates on tax cuts.

Main text word count: 716

President Bush's recently passed tax-cut legislation has been hailed as the most significant tax relief in a generation. During congressional debate, both supporters and opponents of the legislation pointed to the cuts of the last generation, President Reagan's across-the-board rate reductions of 1981-83. Supporters argue Reagan's cuts led to the economic boom of the 1980s, while opponents maintain they failed to help low-income Americans.

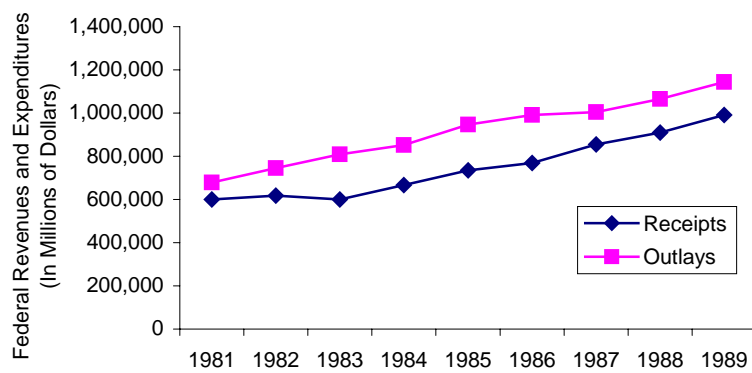
Who is right? What really happened 20 years ago? Let's examine some of the facts and dispel some of the misconceptions of the 1980s so that current and future discussions about tax cuts can be informed by the truth. Here are just four of the myths about the 1980s that continue to misinform to this very day:

**The tax cuts benefited the "rich."** This statement is at the same time both true and irrelevant. The "rich"—the top 1 percent of income earners—paid 15 percent of all income taxes before the cuts. Afterwards, their share rose to 25 percent. This was due to the fact that as lower taxes gave the rich more incentive to invest, they produced more, and therefore made more profits, which were then taxed. The

bottom half of all Americans saw their tax share drop from 10 percent to just over 6 percent. Message: the quickest way to get the rich to "pay their fair share"—and more—is to cut their taxes.

**The tax cuts caused the government budget deficits.** Quite the contrary: Federal revenues rose sharply after the tax cuts, from about \$600 billion annually in 1981 to almost \$1 trillion annually by 1989 when Reagan left office. While revenues soared, spending went into orbit: Federal expenditures rose from \$800 billion to \$1.2 trillion by 1989. Congress, in fact, reneged on part of its bargain with Reagan to hold the line on spending. Routinely, his proposed spending reductions were written off on Capitol Hill as

### Government Spending Increases Ensured Budget Deficits Throughout 1980s



Federal revenue increased following across-the-board tax relief enacted in 1981-83, but unrestrained spending far outstripped the new revenue.

“dead on arrival.” But in any event, the government got more money than ever *after* the tax cuts!

Experience proves that cutting taxes from high, incentive-crushing levels produces wealth for individuals, and even, as a by-product, more income for government. That was true of all three major income tax rate reductions of the 20th century—in the 1920s, the 1960s, and the 1980s. In each case, the revenues to the federal treasury rose, and in each case the rich paid more while the poor and middle classes paid less.

**The military buildup caused spending to increase.** Military spending did rise under Reagan, but social spending grew three times as fast. When placed in a longer-term context, it is shockingly apparent that the military share of the budget shrank considerably while the share of spending that went for social services exploded. From 1955 to 1995, defense grew only 11.9 percent, while federal health programs grew 16,000 percent, education grew 1,200 percent, income security grew 674 percent, and science and technology grew 3,900 percent. The military did not “bust the budget” in the 1980s. Social spending did.

**The national debt rose to historic levels.** This is true only if you torture the statistics until they produce the confession you want. Based on “Historical Statistics of the United States,” the national debt, measured in real, per capita dollars, was indeed rising from 1980 to 1989. But there is another side of the story that usually goes unmentioned: even after a decade of increase, the national debt in 1989 had only *equaled* the levels it had reached under President Kennedy. On a per capita basis, adjusted for inflation, Reagan’s debt levels were *below* those of Eisenhower, Truman, and Roosevelt.

Thanks in large part to the tax cuts, a soaring economy in the 1980s produced wealth faster than Congress could rack up debt. While the national debt rose by more than \$1.6 trillion, the total wealth of the country expanded by about \$17 trillion. Publisher Steve Forbes asks, “Is there a CEO alive who wouldn’t pounce on a trade of \$1 of additional debt for each \$10 of additional equity? When will Washington learn to read a balance sheet?”

President Bush promises more tax cuts in the future. When those are debated, their opponents should do the historical record—and overburdened taxpayers—a favor and not try to defeat them with misinformation about the 1980s.

#####

(Larry Schweikart, author of “The Entrepreneurial Adventure” and professor of history at the University of Dayton, is an adjunct scholar with the Mackinac Center for Public Policy in Midland, Mich. More information on economic history is available at [www.mackinac.org](http://www.mackinac.org). Permission to reprint in whole or in part is hereby granted, provided the author and his affiliations are cited.)

***Experience proves that cutting taxes from high, incentive-crushing levels produces wealth for individuals, and even, as a by-product, more income for government.***

### **Attention Editors and Producers**

*Viewpoint* commentaries are provided for reprint in newspapers and other publications. Authors are available for print or broadcast interviews. Electronic text is available at [www.mackinac.org](http://www.mackinac.org) or on disk. Please contact:

Michael D. LaFaive  
Research Project Manager  
140 West Main Street  
P.O. Box 568  
Midland, MI 48640

Phone: (989) 631-0900  
Fax: (989) 631-0964

[www.mackinac.org](http://www.mackinac.org)  
[LaFaive@mackinac.org](mailto:LaFaive@mackinac.org)