

Georgia's Reaganomic Tax Reform

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February 2011

Tax reform is hard to do. The last time the U.S. enacted bipartisan, pro-growth tax reform was in 1986.

The Tax Reform Act of 1986 was an essential component of what we came to know as Reaganomics or supply-side economics.

The key part of the Reaganomics reform was the reduction of top marginal income tax rates from 50% to 28%. Fifteen tax brackets were consolidated to only four and the bottom tax rate was raised from 11% to 15%.

It was not designed to lower tax revenues overall, but was to be revenue neutral. Rate cuts were financed by reducing tax favoritism enjoyed by special interests. This broadened the tax base by reducing loopholes, preferences, and exceptions effectively taxing activities previously untaxed.

President Reagan saw the plan as a return to classical, free enterprise economics and a repudiation of the Keynesian program of using government spending to 'create demand' management that had dominated U.S. economic policy since the Great Depression.

The seeds for the Reagan reforms were reportedly planted in a restaurant in 1974, where Dr. Arthur Laffer drew his now famous Laffer curve on a napkin. He was illustrating the principle that proposed tax increases would not reduce the deficit because they would shrink taxable income. That's what you'd expect if you reduced the rewards for successful private enterprise investment and expansion. Laffer's solution was to facilitate and encourage growth of private enterprises by **lowering** tax rates.

The concept that Laffer drew on that napkin has been proven time and again. In the two years following enactment of the Reagan tax reform, the U.S. economy added 6.3 million non-farm jobs - twice as many as were created in the entire period 2001-2008.

Perhaps we are in the next wave of the Reagan Revolution. A bipartisan consensus for pro-growth tax reform is building in Washington. In a U.S. Senate Budget Committee's hearing on tax reform, Sen. Wyden (D) said, "Reforming the federal income tax system is the *only major policy response with an actual track record* of creating jobs without adding to the deficit."

Now to Georgia.

Georgia's Special Council for Tax Reform and Fairness submitted its recommendations for pro-growth tax reform to the General Assembly on January 10. (I am a member of that Council, though the views here are my own.)

We recommended that Georgia enact what is basically a supply-side, pro-growth, Reagan-type tax reform. One of the most important aspects of our recommendations is that state income tax rates be cut from 6% to 4%. And, if the economy responds as I believe it will, we would have the opportunity to perhaps go even lower.

The plan is revenue neutral so the income tax rate cuts are made possible by broadening the tax base. Tax preferences for special interests are reduced or eliminated. Tax brackets are reduced and credits, deductions and exemptions are eliminated as much as possible. The code is simplified and streamlined and loopholes are eliminated. This means, as it did for the Reagan tax cuts, that certain previously untaxed items and services will be taxed.

Does this sound familiar?

Art Laffer has written me to praise Georgia's tax reform recommendations. He recently sent me a restaurant napkin on which he drew the now famous Laffer curve and included the words "in hoc signo vinces." (With this diagram you will conquer.) Now **there** is a keepsake!

The General Assembly asked the Special Council for a tax structure that would increase efficiency, support a private sector, and create jobs, jobs, jobs.

The recommendations are our best shot (and a high percentage shot) at moving our state unemployment rate from **above** the national average to **below** it. More importantly, they give us our best opportunity to reduce our teen unemployment rate, which is the highest in the nation at 34%.

Santayana famously said, "Those who cannot learn from history are doomed to repeat it."

As in Reagan's time, the media and special interest groups are trying to divide and conquer by comparing who gets what in our plan. But, by the nature of the plan and the low rates, no one is affected very much. One liberal think tank's estimate is that a family making \$80,000 per year will see its 'effective' tax rate increase from about 3.4% to 3.7%. That's 1/3 of 1% and amounts to \$240, far less than they will save in tax preparation costs.

Other special interest groups suggest that adding back the sales tax on groceries will hit lower and middle income families hard. Not true! Low-income families are protected by untaxed food stamps and a low-income tax credit. For the rest of us, this will cost a family of four about \$6 a week.

But, here's the big picture. It's Reaganomics. Our income tax rates will fall by at least 33% and our state economy will be much healthier and more competitive. Who among us would object to

a **shift** in state taxes that promises to boost business development and job creation and attract more industries to the state?

Let's keep our eyes on the big picture. In private enterprise economics, what is good for all is good for one. Let's win one for the gipper.