



How Ronald Reagan Taught Republicans to Love Tax Cuts

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When Ronald Reagan entered the White House in 1981, the U.S. national debt was just under 33% of GDP – not very high by historical standards – and it was falling. By the time Reagan left office eight years later, America's debt was over 53% of GDP and climbing steadily. The Reagan tax cut of 1981 remains the largest tax cut in U.S. history, but its significance is more political than fiscal. It launched the Republican Party on a decades-long crusade to slash federal revenues no matter what.

President Reagan later supported a deficit-reducing budget deal that included some tax increases, but since Reagan's time members of the Republican Party have embraced tax cuts as their political lode-star. Republicans will not increase taxes, even to pay for wars or address rising deficits and pressing national needs. Understanding what happened starting in the pivotal Reagan era illuminates why contemporary Republicans remain wedded to tax-cut politics – and suggests what might change political dynamics in the future.

Conservative Economists and Business Interests were Not the Prime Movers

Why did Reagan era Republicans turn to tax-cut politics, starting with the big bang in 1981? Expert ideas and pressures from business are often cited as the chief causal forces, but the evidence suggests otherwise:

- Economist Arthur Laffer is famous for the “Laffer Curve,” the notion that tax cuts more than pay for themselves by spurring so much economic growth that government revenues rise even when tax rates are lower. Laffer's claims are regularly trotted out by tax cut proponents, but the original Reagan administration budgets never assumed that tax cuts would lead to greater revenue.
- Leftists presume that business interests dominate conservative politics. But in 1981, business leaders originally opposed the sharp reductions in individual tax rates that were the largest part of the 1981 deal. The Reagan administration actually did a bait-and-switch. To get business groups on board for the entire legislative package, they added large business tax cuts, but radically trimmed the business tax cuts just one year later while leaving the individual rate cuts sacrosanct.

Learning that Sweeping Tax Cuts Can be Politically Popular

President Reagan and Congressional Republicans discovered that broad tax cuts may appeal to working-class voters even if richer constituents reap most of the rewards. The key GOP move was to keep tax-cut promises sweepingly general. Survey research reveals that if voters are given a choice between tax cuts and spending on specific programs, they choose to maintain or increase spending. When they are given a choice between tax cuts and lower deficit levels, they choose lower deficits. But it is a different matter if no one mentions the need to cut specific programs or the possibility of higher deficits. In that case, voters assume that tax cuts will

be paid for by cuts in “government waste.” This is the centerpiece of the Republican tax cut strategy. 1980s Republicans had few moral qualms about promising tax cuts without mentioning the specific programs that might have to be cut. They saw this approach as the strategic analogue to years of Democratic promises to increase spending without detailing how to pay for new or expanded programs.

Republicans could also take advantage of the general unpopularity of major kinds of U.S. taxes. In contrast to many other advanced industrial democracies, the United States relies heavily on highly visible taxes – property taxes at the local level and the income tax at the national level. As middle-class market incomes stagnated during the economic crisis, reductions in highly visible taxes became a popular way to boost family budgets.

Republican fealty to tax-cut politics was set in cement soon after Reagan left office. In his first term, successor Republican President George H. W. Bush wanted to address rising deficits and broke a pledge never to raise taxes. This was not so different from what Reagan himself did when he accepted tax increases in 1982. But when Bush was not reelected, modern-day Republicans drew an iron-clad lesson: tax cuts are the road to electoral success and tax increases spell defeat at the polls. Republicans also began to realize that deficits could be financed with foreign capital, and that voters did not punish politicians for big deficits. Their strategy became unshakable.

Lessons for Today

The American left consistently overstates the power of business. Because of this, many scholars and analysts fail to appreciate the true political appeal of tax cuts to many voters. This political appeal is real, but it is also fragile. Voters only support tax cuts as long as they believe that tax cuts will not lead to decreased spending or increased deficits. Republican politicians and activists have driven up support for tax cuts by downplaying the tradeoffs between taxes and spending. Highlighting these tradeoffs will bring voting behavior in line with voters’ true preferences.

Read more in Monica Prasad, *The Politics of Free Markets* (University of Chicago Press, 2006) and “The Popular Origins of Neoliberalism in the Reagan Tax-Cut of 1981,” *Journal of Policy History* (2012).