

What would Ronald Reagan do?

by Jack_Kemp

As the Republican candidates all gather at the Reagan Library for their first debate of the presidential campaign, what follows is my advice on "what would Ronald Reagan do?" I'll start with the economy and follow with foreign policy in next week's column.

In giving thought to what Reagan would do about tax and budget policy, we must never forget the times in which he led our nation.

When he was first sworn in in 1981, Reagan faced a divided government, an economy in deep recession with rising prices and a rapidly falling dollar. The country had begun to experience what economists said was impossible, i.e. rising unemployment and accelerating inflation, which came to be called "stagflation." The so-called "misery index" was at an all-time high, and the morale of the American people was at a record low, except for the Depression.

Conventional economists were calling for a tax increase to dampen inflation and for the Fed to use monetary policy to offset the fiscal drag to prevent a recession. Income tax rates were 70 percent at the top and 20 percent at the bottom.

Reagan moved decisively to cut tax rates by 25 percent across the board, and he supported Federal Reserve Board Chairman Paul Volker's tight monetary policy, thus strengthening the dollar while wringing inflation out of the economy. These bold steps, along with lowering the trade and regulatory barriers, helped the U.S. economy grow well over 4.5 percent while unemployment dropped below 5 percent for the first time in two decades.

As the economy grew, revenues increased, and the wealth of our nation began to produce the jobs that took unemployment from more than 6.5 percent down to 4.5 percent, all with price stability. This was something the Keynesian economists (and some conservatives, as well) said couldn't happen. Indeed it's happening now under President Bush, with unemployment at 4.4 percent, thanks in large part to the Bush tax rate cuts.

Reagan would not only defend the Bush tax-rate cuts, he'd have more in store for us. He'd not only support making them permanent, but he'd offer up a tax-reform agenda that would cut the top tax rate to 20 percent, lower the payroll taxes on working families and allow workers to put at least half of their payroll taxes into IRAs so as to get a much better rate of return.

Reagan also believed in a zero capital gains tax on those who'd put their surplus capital at risk in enterprise zones, also known as empowerment zones. These special zones throughout urban and rural America would

help to create more jobs for minorities and those living in poverty while creating access to capital and credit for low-income people.

He would tell us that it is absolutely possible to reduce the debt burden, fix Social Security and cut tax rates, all at the same time. Anyone who doesn't believe it doesn't comprehend the hypothesis put forth by President Kennedy in 1961 and '62 and confirmed by Reagan in the '80s: "The purpose of cutting taxes now is ... to achieve a more prosperous and expanding economy. The soundest way to raise tax revenues in the long run is to cut the tax rates now."

So, Republican candidates, here's a "Kempian" plan to memorize in the days and months ahead as you give a "Reaganesque" answer as to how to keep growing our American economy:

"My fellow Americans, I'm a spending hawk and a tax-cutter. We must adopt good economic policies - less spending, lower tax rates, a simpler tax code - and then let the economy work by unleashing the dynamics of the American worker, investor and entrepreneur. Someone will try to say that this won't reduce the deficit, and I challenge them on that. They don't know. They are still using computer models that have never worked in the past. You just can't predict the deficit with any precision.

"We're talking \$2.4 trillion of taxes and more than \$2.6 trillion in outlays in 2006, and the deficit is less than 2 percent of our GDP, which is more than \$13 trillion. I respectfully disagree with anyone who thinks they can forecast precise estimates out into the future. It depends on economic growth.

"The economy will grow faster if we have open trade, a better tax code and restraint of spending. The growth of our economy is just not counted in the computer models, so we have to discount those models and use our best judgment about what's good for the country, the economy and the Free World. And that's exactly what I plan to do when I take office!"

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