President Donald Trump and House Republicans have proposed trillions of dollars in tax cuts, predominantly for high-income individuals and corporations. These tax cuts would come at the expense of middle-class families’ economic security and investments in our economy, such as education, scientific research, and infrastructure. While the administration and House Republicans plan to advance their agenda through Congress this fall, public opinion is crystal clear that the American people do not support the tradeoff between tax cuts for millionaires and economic security for working families. Trump and House Republicans are therefore taking a page out of an old playbook: claiming that tax cuts will trickle down to working families in the form of stronger economic growth. But recent history and an abundance of economic research show that trickle-down tax cuts don’t create growth or jobs; they lead only to widening inequality between the top 1 percent of income earners and everyone else.

The past quarter century has tested the supply-side theory that top-bracket tax cuts would boost economic growth and jobs. This theory has decidedly failed.

• In 1993, President Bill Clinton raised taxes on top earners from 31 percent to 39.6 percent. Conservatives predicted disaster; instead, the economy boomed. 23 million jobs were created and the economy grew for 32 straight quarters in what was then the longest expansion in history.

• By contrast, in 2001 and 2003, President George W. Bush cut income taxes substantially, lowering the top rate to 35 percent while also lowering top rates on capital gains and dividends. Conservatives maintained that the tax cuts would turbocharge economic growth; in fact, conservative think tank The Heritage Foundation predicted that growth would be so strong that the United States would entirely pay off its debt by 2010. Instead, the ensuing years saw weak growth, followed by the 2008 economic collapse. And as economist Danny Yagan has found, the steep cuts in dividend tax rates signed into law by President Bush in 2003 did not increase corporate investment or worker pay.
• The Bush-era tax rates stayed in place through 2012, but at the end of that year, President Barack Obama struck a deal to restore the 39.6 percent top tax rate and raise the tax rates on capital gains and dividends. Again, many conservatives predicted doomsday. However, the economy grew steadily, and the expansion is still continuing.

As Figure 1 shows, job growth has been much stronger following the two most recent increases in the top tax rate. Given that there are innumerable factors behind how the economy performs, this recent history certainly does not prove that raising taxes on the rich causes the economy to grow or that cutting taxes on the rich causes it to lag. It does, however, provide powerful evidence refuting the claims made by the proponents of trickle-down tax cuts.

Conservatives often point to President Ronald Reagan’s 1981 tax cuts as evidence that supply-side tax cuts accelerate economic growth. In fact, despite the legend, there is little evidence that the personal income tax cuts enacted by President Reagan in 1981 meaningfully boosted the economy; as research by Reagan’s own chief economist has found, the so-called Reagan recovery of the early 1980s was driven by monetary policy, not tax cuts.

State experiences can guide federal policymakers

Kansas’ supply-side experiment illustrates the dangers of trickle-down tax cuts, while California has proven that making the wealthy pay their fair share is consistent with strong growth. In 2012, in what Gov. Sam Brownback (R-KS) called a “real live experiment” in supply-side tax policy, Kansas approved major tax cuts skewed toward the top earners and business owners. That same year, California raised taxes on the highest earners—singles earning more than $250,000 per year and couples earning more than $500,000—making the top-bracket income tax rates the highest in the nation.
Since then, California has enjoyed among the strongest economic growth rates of any state, while Kansas has lagged behind its neighbors, falling below average nationally in economic growth and job creation.12 Kansas’ tax cuts have severely worsened the state’s fiscal situation, resulting in deep cuts to education and other state services.13

**FIGURE 2**

Trickle-down tax cuts don’t create growth: Evidence from the states

California grew its economy after enacting tax increases on the rich in 2012; Kansas’ economy has slumped following tax cuts.

Reducing top marginal tax rates can harm growth

As economist Jared Bernstein has found, the U.S. experience since World War II shows no correlation between the top marginal tax rate and per capita economic growth—nor between the top marginal tax rate and growth in employment, capital investment, productivity, or pretax median family incomes.14 That is, cutting taxes at the top does not result in faster growth or rising living standards. Similarly, the non-partisan Congressional Research Service (CRS), examining the U.S. experience since 1947, found no association between the top marginal income or capital gains rates and per capita growth. As CRS determined, “The top tax rates appear to have little or no relation to the size of the economic pie,” but tax policy “could be related to how the economic pie is sliced.”15 Indeed, top-bracket tax rates are correlated with growth in income inequality.16

The Brookings Institution’s William Gale and Dartmouth College’s Andrew Samwick comprehensively reviewed the economic literature on tax cuts and growth, concluding that tax cuts are unlikely to substantially boost growth and that tax cuts that increase deficits can harm growth.17
As with the significant cuts in domestic programs since 2011, the deficits resulting from unpaid-for tax cuts will undoubtedly be used to justify cutting programs that invest in the economy and support working families, harming our long-term prospects in the process. Federal investments in education, research, and infrastructure all create jobs and grow the economy over the long term. Researchers have found that Medicaid, nutrition assistance, and environmental protection all improve health outcomes and in turn increase productivity. Programs that improve the economic security of low-income children—such as nutrition assistance, housing subsidies, and tax credits like the Earned Income Tax Credit—raise children’s educational attainment and future earnings. For these reasons, tax cuts that threaten critical investments undermine the goal of broad-based prosperity.

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17 Gale and Samwick, “Effects of Income Tax Changes on Economic Growth.”

18 Since 2010, nondefense, or discretionary, programs have been cut by 13 percent in real terms—a reduction for inflation—and by 18 percent when adjusted for inflation and population growth. See David Reich and Chloe Chao, “Unmet Needs and the Squeeze on Appropriations” (Washington: Center on Budget and Policy Priorities, 2017), available at https://www.cbpp.org/research/federal-budget/unmet-needs-and-the-squeeze-on-appropriations.

