Are tax cuts promoting economic growth

Are Tax Cuts Promoting Economic Growth Tax cuts have been a means to promote economic growth for decades, and history has proven its trackrecord. It is based off a common sense principle that the more money the private sector has to create and expand businesses, the more opportunities for employment, the more goods are bought and sold, the greater the GDP becomes. As profits increase, businesses-both small and big-can expand for greater profit potential. As businesses expand, employment opportunity increases. As more people are employed, more goods and services are bought, thus further increasing profit.

Under President Kennedy's 1962-63 tax cuts: " Inflation-adjusted economic growth rose 42%-more than 5% annually-between 1961 and 1968" (Commonwealth Foundation, 2005, n. p.).

A similar growth occurred under President Reagan's tax cuts which " stimulated a 17-year economic expansion, interrupted only by an eight-month downturn in 1990-91" (Commonwealth Foundation, 2005, n. p.). And the same thing can be seen happening with President Bush's 2003 tax cuts since 2003 annual GDP has increased by 4. 3% as opposed to the 2. 4% during the two years preceding.

There can, however, be a downside to tax cuts. If the taxpayers save their increased income or buy outsourced commodities, the government may have to deal with balance of payments difficulties that could cause a deflationary effect leading to a " budgetary crisis with a painful readjustment to follow" (Wikipedia, 2006, n. p.). But how many people do you know bother to put their tax returns into savings or shop overseas Of course, you can buy almost anything from anywhere on the Internet, so the downside might be all too accessible these days.

An alternative to cutting taxes is to increase minimum wage. Of course, that comes with its own share of downsides; mainly, the same downsides that tax cuts have. While researchers could find " no statistically significant relationship between minimum wage rate increases and business failures" (Rendell, 2006, n. p.), it is still no better than tax cuts and prone to the same downsides. So, when in doubt, cut taxes.

Of course, doing both simultaneously could produce some interesting results. It could possibly double or even triple GDP growthor cause a " budgetary crisis" the likes of which we haven't seen in a long time. Since combining the two has never been done before, there's no way to truly know for certain.

References

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