Toward the 50th Anniversary of Kennedy Tax Cuts

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The US economy is sluggish and expanding at merely 2% per annum, which is hardly sufficient to reduce its high unemployment rate. This lack of vitality is increasingly apparent when compared to the much higher growth rates achieved by its primary adversary, which operates under strong state leadership. Within the US, there is a widespread sense of resignation and acceptance of this reality as the “New Normal,” and many believe there is not much to be done.

While this account might appear relevant for the current US economy, it is actually a reference to the economy of the late 1950s and early 1960s, a period often considered as one of “postwar prosperity.” Then, the US was challenged by a seemingly all powerful Soviet Union, which had startled America with the Sputnik shock of the late 1950s. From this motivation, the US took actions to turn the country and its economy around. In this statement, we ask what these actions were and whether similar efforts could be used again today.

What JFK did 50 years ago

The principal action taken at the time was the Kennedy Tax Cuts designed specifically to stimulate the economy and put unemployed labor to work. JFK’s tax policy initiative to “get this country moving again” was launched in his well-known speeches in late 1962 as well as in his 1963 State of the Union address, eventually resulting in the Revenue Act of 1964 which took effect on February 26, 1964, nearly fifty years ago.

The effects were striking. The policy worked and economic growth rate doubled right after Kennedy’s tax policy initiative, jumping from the average of 2% in the decade before 1962 to 4-5% after that, actually throughout the Kennedy-Johnson administration era.

At the same time, the unemployment rate dropped from 6% in the late 50s and the early 60s down to 4% by the mid to late-1960s. As a result, the employment growth rate during the 1960s again reached the 30% mark for the decade, as it had in the 1940s, as compared to one under 25% in the 1950s. So striking were its effects that the Kennedy tax cuts have long been viewed as a major policy success.

In addition to their timing, their essential features were their scale and their immediacy. The cuts represented nearly 2% of national income in 1964. By way of comparison, the Reagan tax cuts in the early 1980s was 1.4%, and the Bush cuts in the 2000s was only 0.8% in the first year, although followed by a series of tax cuts. Another prominent feature of the Kennedy tax cuts is that they came into effect and worked nearly immediately.

What should be done by 2014

It is instructive to contrast that policy with the economic policies taken by the Obama administration. The first stimulus policies in 2009, in aggregate, amounted to $787 billion, which was then about 5% of GDP of which tax cuts represented about 2% of GDP. In that respect, it was generally comparable to JFK’s tax cuts and quite effective in preventing the US economy from spiraling downward in the depth of the Great Recession. However, five years later, we can all see that it was not nearly sufficient.

What we propose now is a new version of the Kennedy tax cuts, that is, across-the-board corporate and personal income tax cuts of at least the same magnitude relative to national income as in 1964 to “get this country moving again.” Of course, that is where the political situation enters in. Is there a possible bargain that would lead both parties to accept it? On the Republican side, the call for lower taxes has been constant for many years, and so one might think that Republicans could easily support this policy. But that result is not so apparent since they might also call for reduced government expenditures which would directly defeat its purpose. On the Democratic side, the goal of putting people back to work might make this proposal palatable even if many of the cuts would go to support investment decisions that would ultimately be realized by wealthier tax payers. What is needed is that there be some cuts available for all, as with the wide-ranging tax cuts of the Kennedy era. The goal would be to reconcile the differences between the parties to reach some level of consensus.

The real issue before us is how to build sufficient consensus so that it can pass the Congress. President Obama’s recently revised Grand Bargain is a step in this direction, seeking to win support from Democrats who favor tax cuts for the poor but also from Republicans for favor cuts which ultimately benefit the wealthy. However, his proposal is not really a stimulus proposal because of its revenue enhancing aspects added to appeal to those who insist in some level of government debt reduction.

In the absence of such a policy, we fear the US economy will likely show further weaknesses, and possibly even fall into double-dip recession, as we are observe now in Britain and the Euro zone. We should act now so that the “New Kennedy Tax Cuts of 2014” could take effect at least by February 26, 2014, which marks the 50^{th} anniversary of the original Kennedy tax cuts.