

Tax Cut Myth

**Robert A Agnew, PhD
raagnew1@gmail.com**

raagnew.com

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Thesis

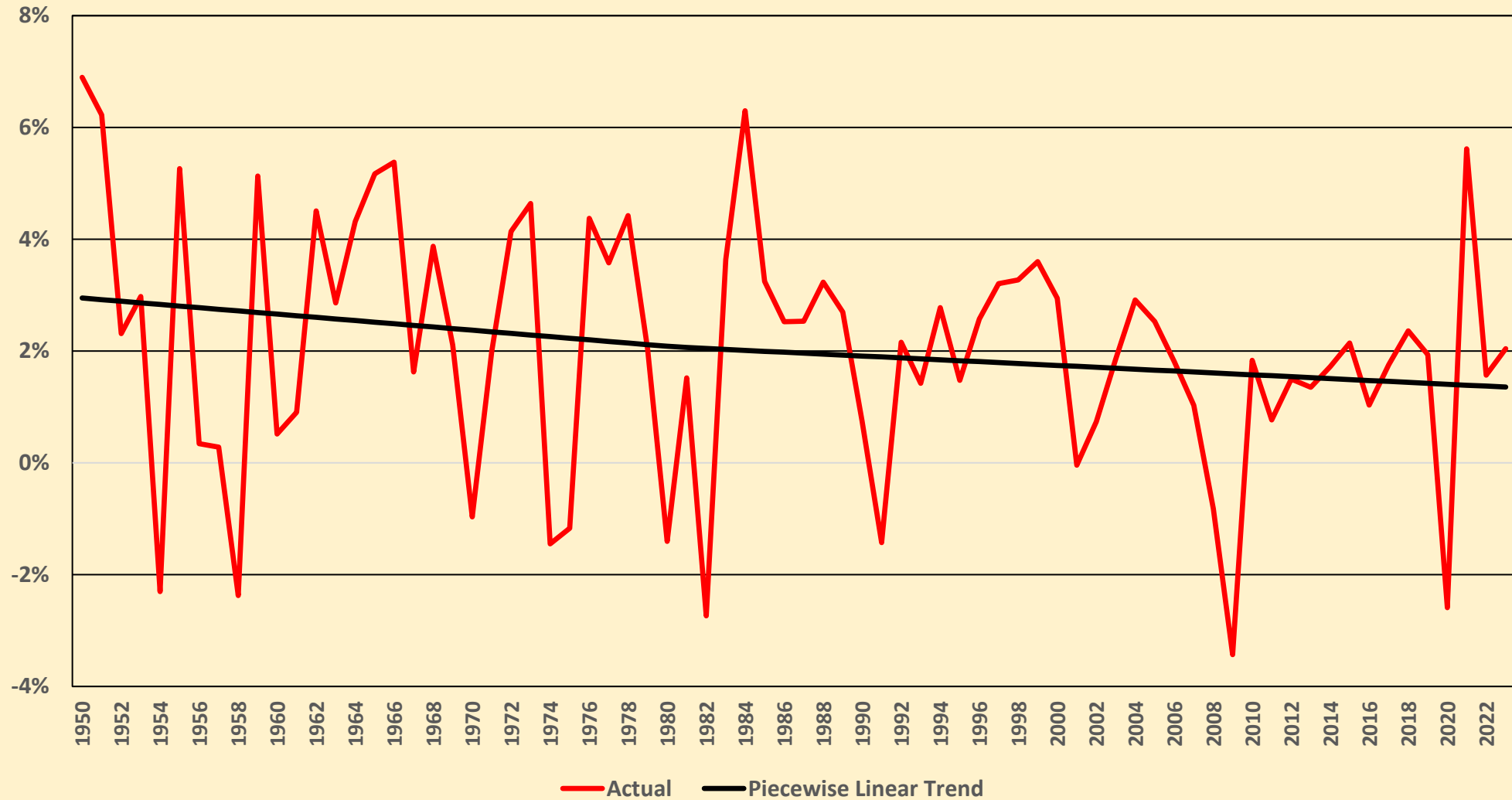
- **US government data don't support the notion that massive tax cuts drive real GDP growth and widespread benefit**
- **Employees have been losers since 1980**
- **Corporations have been winners since 1980**

Approach

- **Data since 1950 from Bureau of Economic Analysis, US Dept of Commerce**
 - Real Gross Domestic Product per Capita Growth Rate
 - Real Disposable Personal Income per Capita Growth Rate
 - Business Fixed Investment Percent of GDP
 - Employee Compensation Percent of Gross Domestic Income
 - Proprietors' Income Percent of GDI
 - Pre-Tax Corporate Profits Percent of GDI
 - Average Corporate Tax Rate
 - After-Tax Corporate Profits Percent of GDI
 - Corporate Net Dividends Percent of After-Tax Corporate Profits
- **Compare Trends for Pre-Tax-Cuts (1950-1980) to Post-Tax-Cuts (1981-2023)**
 - Real GDP per Capita Growth Rate showed steady decline throughout
 - Real Disposable Personal Income per Capita Growth Rate was flat throughout
 - Business Fixed Investment Percent of GDP plateaued after 1980
 - Employee Compensation Percent of GDI steadily declined after 1980
 - Proprietors' Income Percent of GDI increased after 1980
 - Pre-Tax Corporate Profits Percent of GDI increased after 1980
 - Average Corporate Tax Rate declined throughout
 - After-Tax Corporate Profits Percent of GDI increased sharply after 1980
 - Corporate Net Dividends Percent of After-Tax Corporate Profits increased throughout
- **Charts illustrate these comparisons**

US Real Gross Domestic Product per Capita Growth Rate

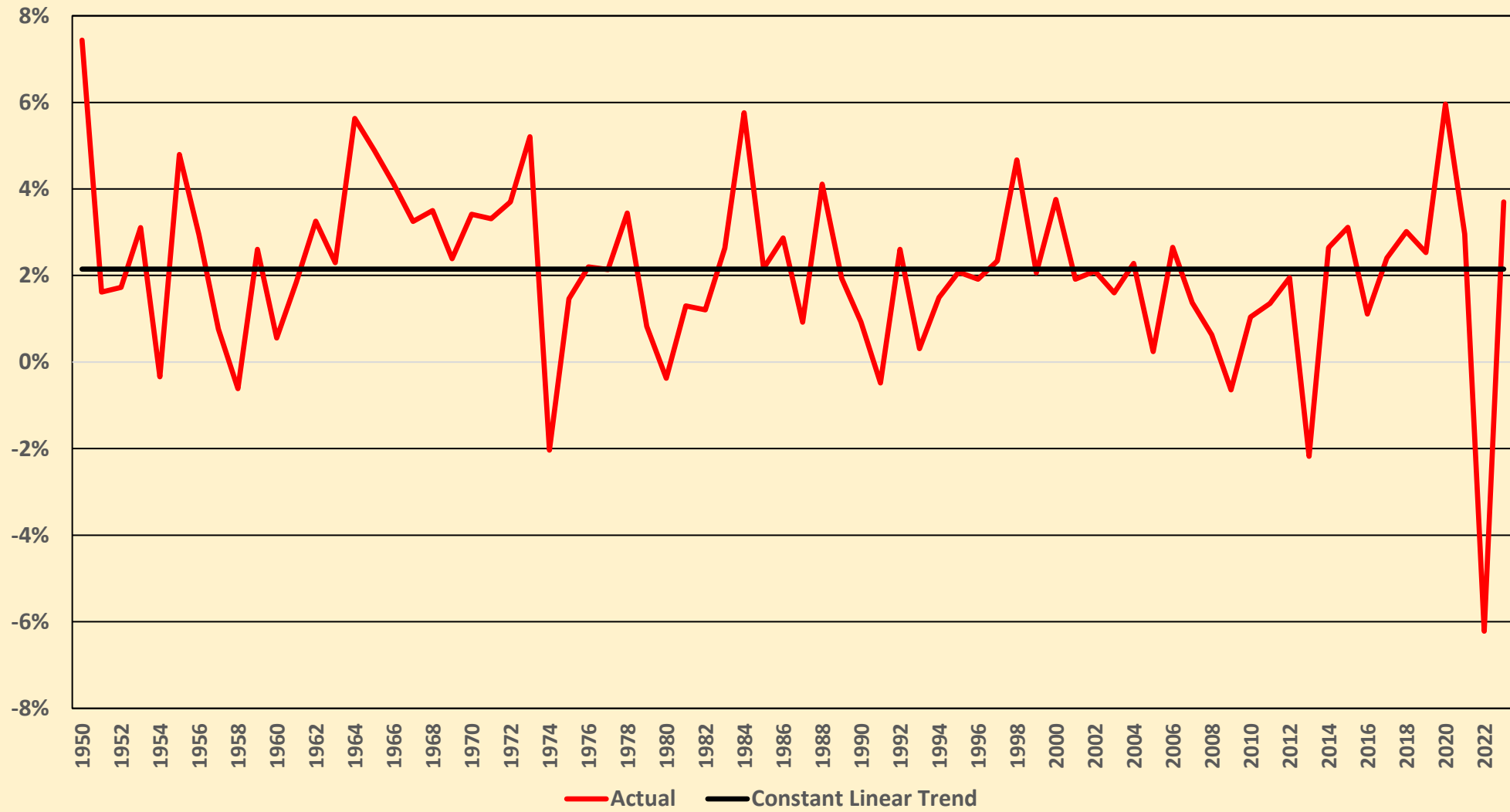
Data source: [bea.gov/itable/national-gdp-and-personal-income](https://www.bea.gov/itable/national-gdp-and-personal-income), Interactive Table 7.1.



Downward trend is clear, only slightly less negative after 1980. Massive tax cuts, starting with Reagan, did not lead to a sustained surge in overall real economic output per capita.

US Real Disposable Personal Income per Capita Growth Rate

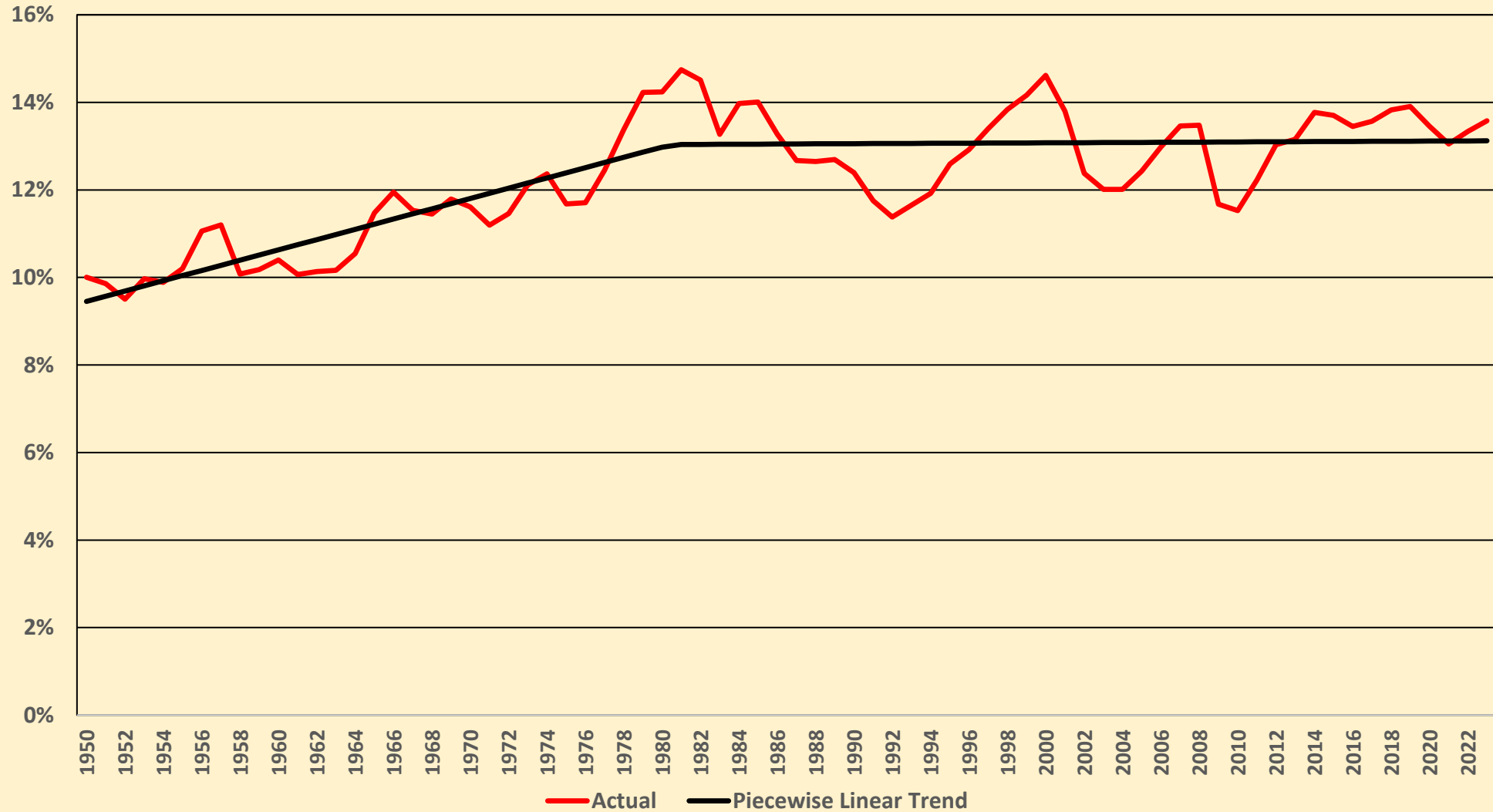
Data source: [bea.gov/itable/national-gdp-and-personal-income](https://www.bea.gov/itable/national-gdp-and-personal-income), Interactive Table 7.1.



The trend here is at least flat, but this includes all sources of after-tax personal income. Once again, there is no evidence of an upswing after 1980.

US Business Fixed Investment Percent of GDP

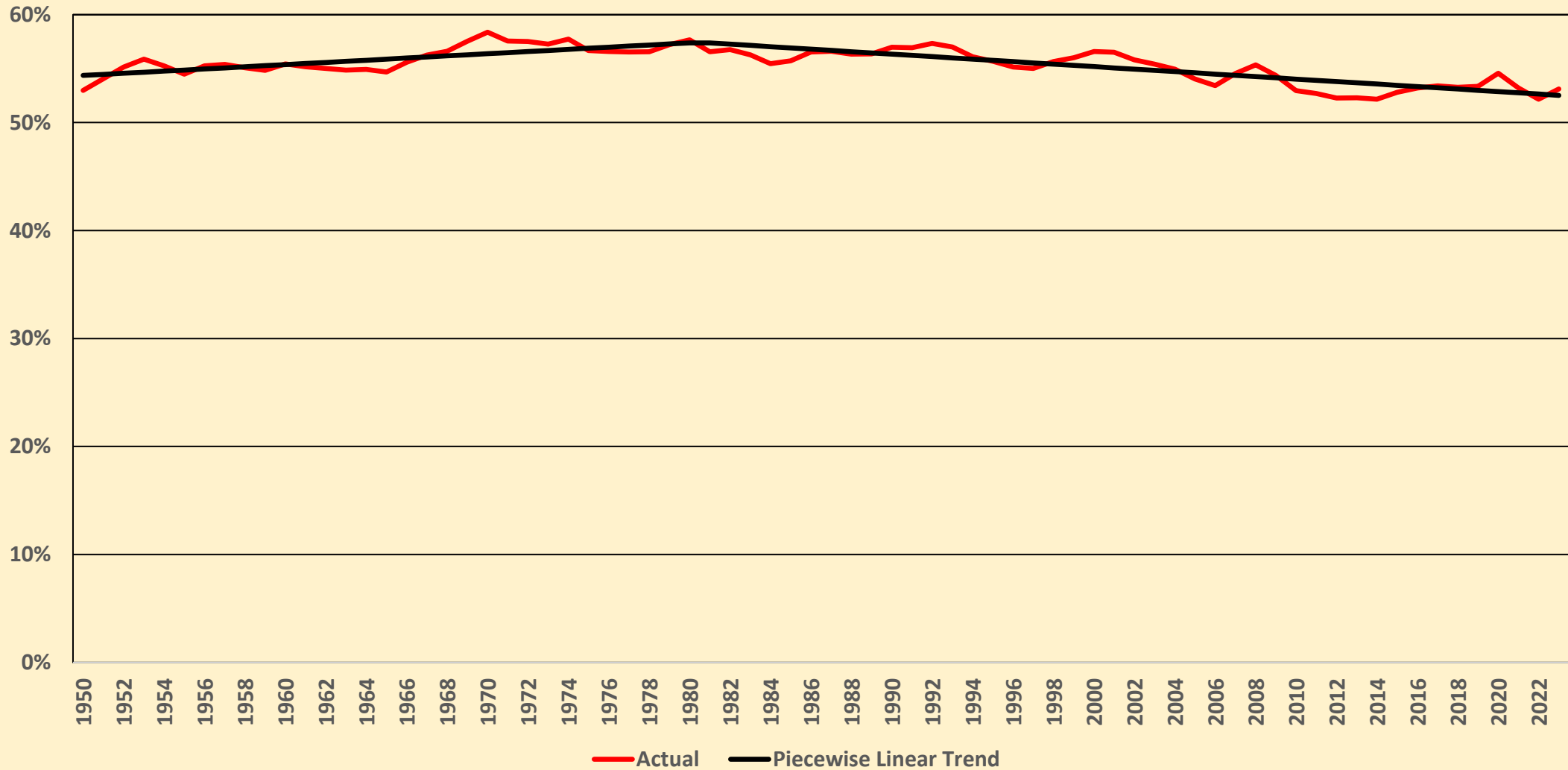
Data source: [bea.gov/itable/national-gdp-and-personal-income](https://www.bea.gov/itable/national-gdp-and-personal-income), Interactive Table 1.1.5.



Business fixed investment trend, which had been increasing, simply plateaued after 1980. There is no evidence that massive tax cuts led to an investment surge.

Employee Compensation Percent of Gross Domestic Income

Data source: [bea.gov/itable/national-gdp-and-personal-income](https://www.bea.gov/itable/national-gdp-and-personal-income), Interactive Table 1.10.

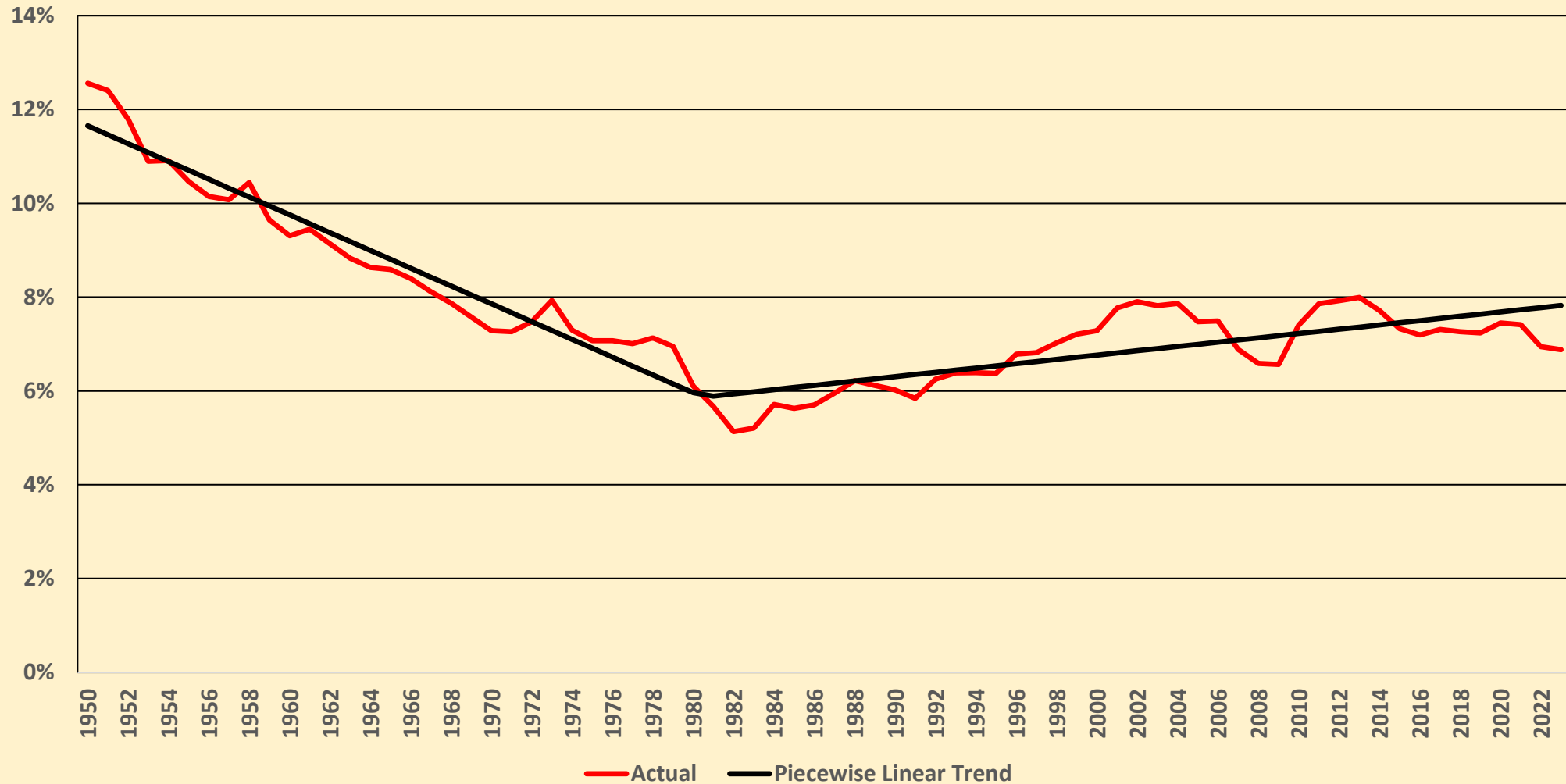


Employee compensation trend declined after 1980, indicating narrowing compensation benefits from economic growth, itself declining. Employees were losers in the income sharing game. *This is aside from increasing income inequality within compensation.*

Proprietors' Income Percent of Gross Domestic Income

Adjusted for inventory valuation and capital consumption

Data source: [bea.gov/itable/national-gdp-and-personal-income](https://www.bea.gov/itable/national-gdp-and-personal-income), Interactive Table 1.10.

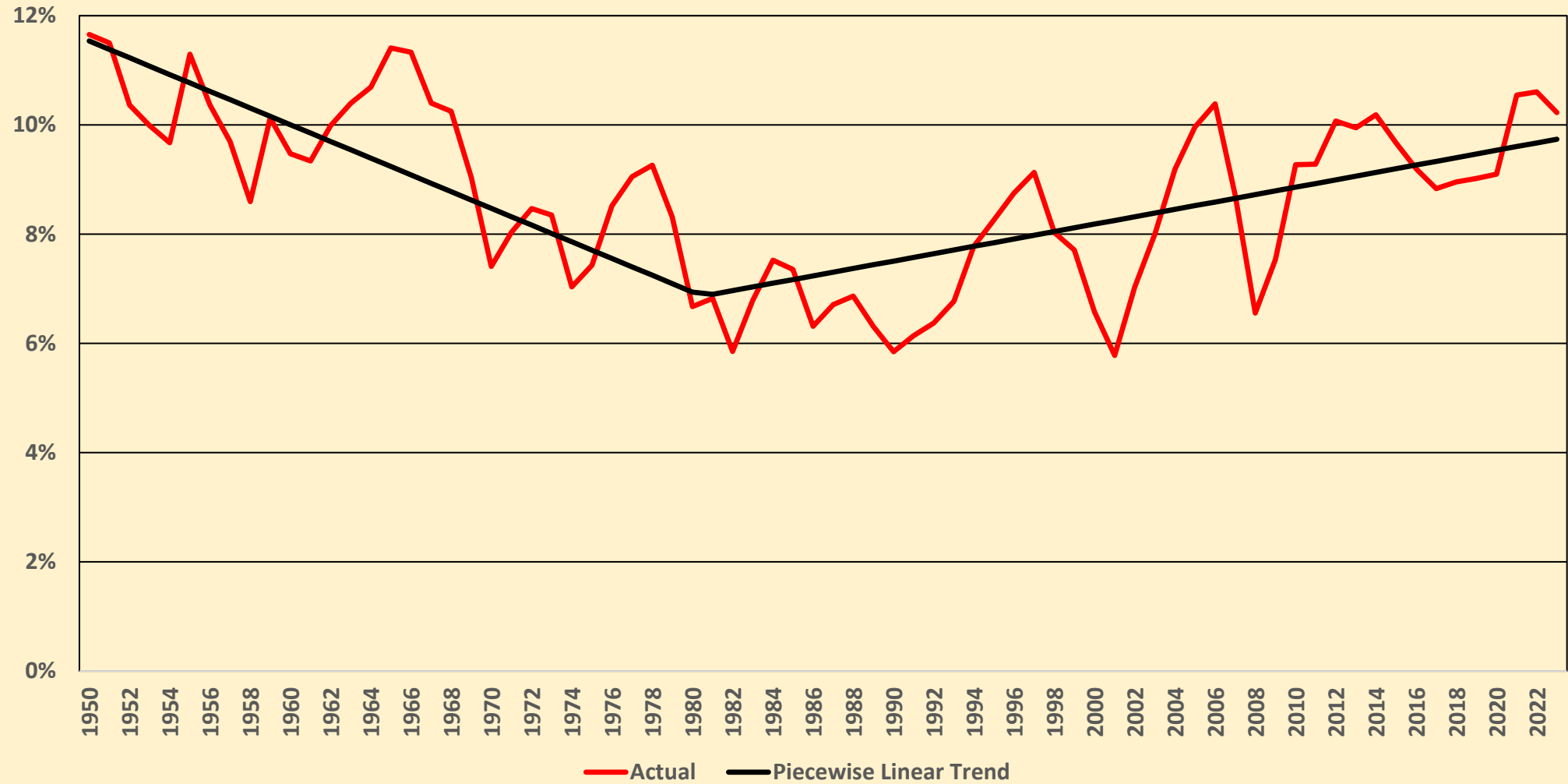


After a significant previous decline, small business income trend increased after 1980. These owner-operators were modest winners in the income sharing game.

Pre-Tax Corporate Profits Percent of Gross Domestic Income

Adjusted for inventory valuation and capital consumption

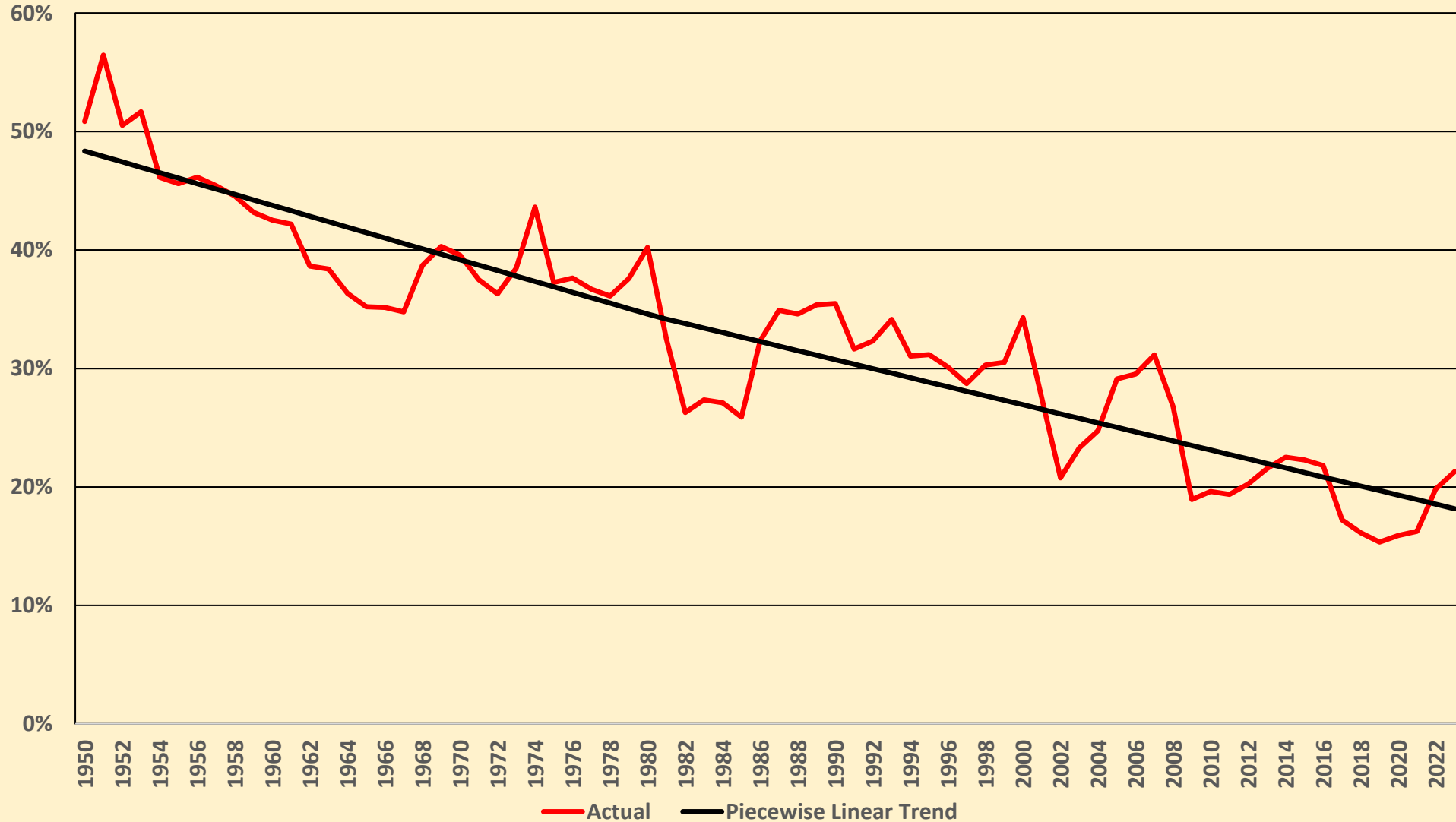
Data source: [bea.gov/itable/national-gdp-and-personal-income](https://www.bea.gov/itable/national-gdp-and-personal-income), Interactive Table 1.10.



Pre-tax corporate profits trend, which had been declining, rebounded after 1980. This benefited shareholders, but not the broader public in terms of compensation.

Average Corporate Income Tax Rate

Data source: [bea.gov/itable/national-gdp-and-personal-income](https://www.bea.gov/itable/national-gdp-and-personal-income), Interactive Table 1.10.

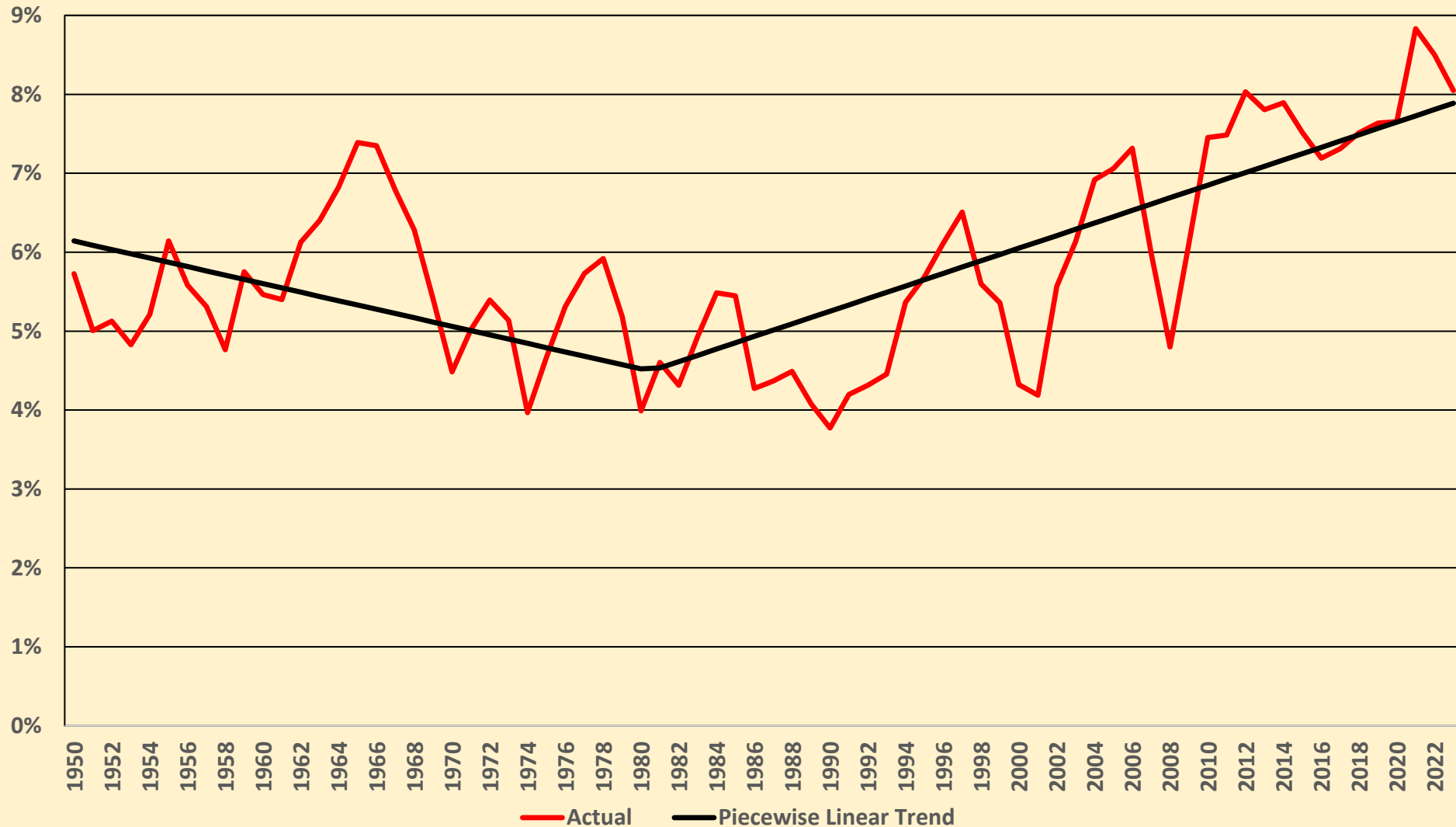


Corporate tax reduction did not start in 1981. Corporate tax rate has trended down on virtually a straight line throughout. This again was a major benefit to shareholders.

After-tax Corporate Profits Percent of Gross Domestic Income

Adjusted for inventory valuation and capital consumption

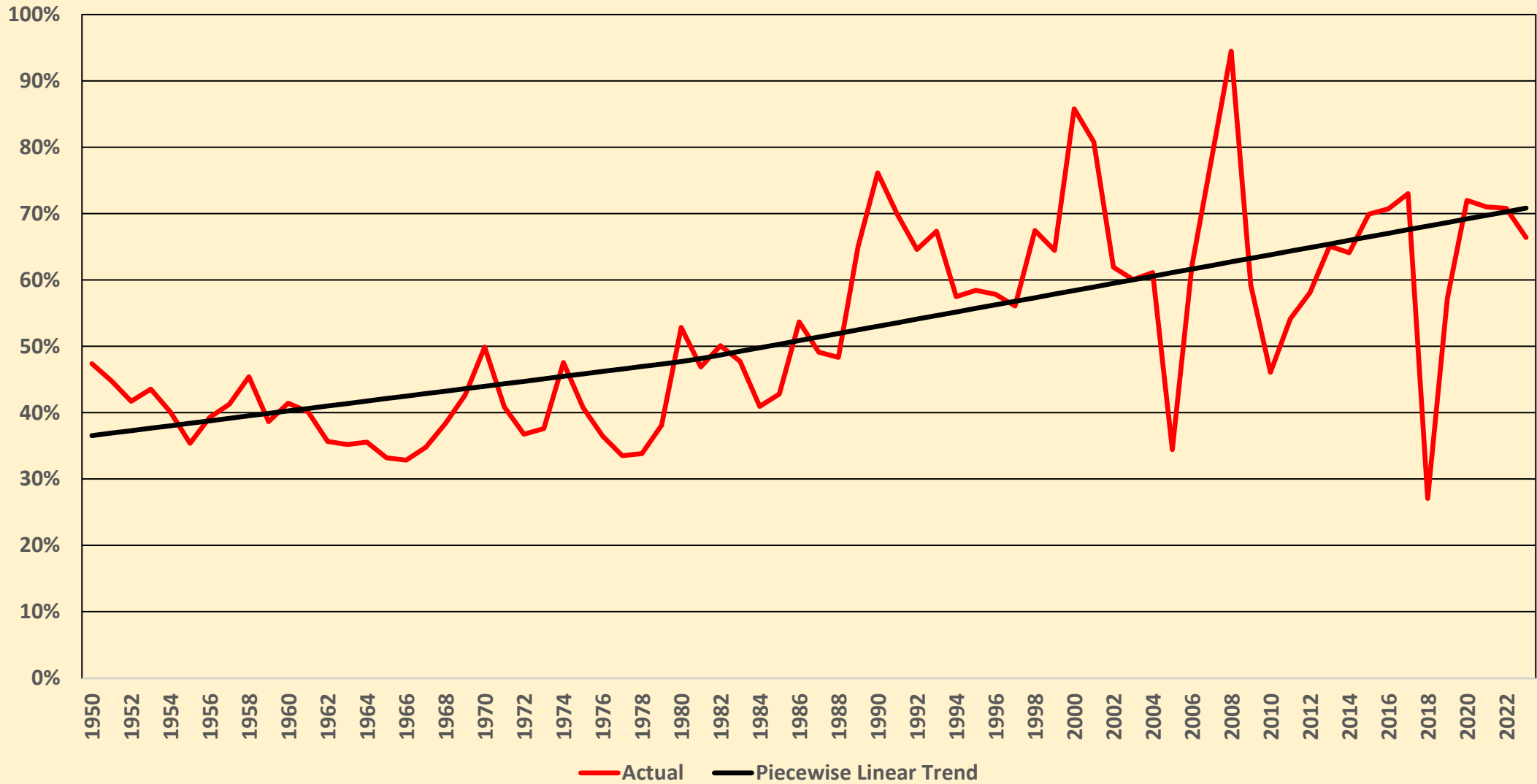
Data source: [bea.gov/itable/national-gdp-and-personal-income](https://www.bea.gov/itable/national-gdp-and-personal-income), Interactive Table 1.10.



Thanks to reduced taxes, after-tax corporate profits trend was up sharply after 1980. This bounty could have been invested for future growth.

Corporate Net Dividends Percent of After-Tax Profits

Data source: [bea.gov/itable/national-gdp-and-personal-income](https://www.bea.gov/itable/national-gdp-and-personal-income), Interactive Table 1.10.



Corporate dividend payouts have been trending up throughout, slightly more so after 1980. Corporations are paying out profit to shareholders, as opposed to growing their businesses via investment and employment. *This is aside from funds spent on share repurchases.*

Conclusion

- **Based on government data, there is no evidence that massive post-1980 tax cuts have driven real GDP growth and widespread benefit**
- **Real GDP per Capita Growth Rate trend has declined steadily throughout**
- **Real Disposable Income per Capita Growth Rate trend has remained flat throughout**
- **Business Fixed Investment trend has been flat as a percent of GDP since 1980**
- **Employee Compensation trend has declined as a percent of GDI since 1980**
- **Small business owners have been modest income share winners since 1980**
- **Principal income share beneficiaries since 1980 have been corporations**
 - **Increasing pre-tax profits share**
 - **Decreasing corporate tax rate**
 - **Sharply increasing after-tax profits share**
 - **Increasing shareholder dividend payout rate**
- **There is no substance to the notion that massive tax cuts lift all economic boats in tandem. It is a myth, worse yet a sham.**