

Demand-Side Trickle-Down

Back in 1980, a central feature of President Reagan's campaign was a thirty percent across-the-board cut in income tax rates. Once elected, he followed through with the 1981 tax cut, which closely resembled this campaign promise.

Those Reagan-era tax cuts were inspired by a combination of two factors. First, the very similar "Kennedy" tax cuts proposed by President Kennedy in 1963 and then passed posthumously in 1964. Interestingly, the conservative Senator Barry Goldwater and many other Republicans opposed this tax cut on the grounds that it would increase the budget deficit.

The second factor was the rise of supply-side economics, which argued that the stagflation of the 1970s needed to be addressed with one lever of policy focused on each problem: inflation needed to be tackled by tighter monetary policy; slow growth and high unemployment required cuts in marginal tax rates to increase the incentives to work, save, and invest. The great economist Arthur Laffer, with his Laffer Curve, posited that tax cuts may actually increase tax receipts. Why? Because after a certain point, higher tax rates deterred so much economic activity that they resulted in *less* revenue. By increasing economic growth, lower rates could increase revenues over time.

Both inflation and unemployment fell after implementing these policies and real GDP growth accelerated. But Reagan boosted defense spending and locked-in inflation escalators boosted government spending in the early 1980s...resulting in larger deficits initially. These deficits were then used as a cudgel to bash supply-side economic policies.

Reagan's opponent in the 1980 primary, and eventually his Vice President, George H. W. Bush, had called his policies "voodoo economics." Others derided them as "trickle-down," a pejorative meant to make it seem like lower income groups only benefited from these policies because the "rich got richer."

The accusation of "trickle down" has a lengthy history. Democratic presidential candidate William Jennings Bryan, in 1896, spoke of his opponents' policies helping the rich in a way that would only "leak through" to help others. In 1932, Will Rogers criticized President Hoover for "trickle down" policies in

the Great Depression, even though Hoover imposed major tax hikes and increased spending (although not as much as President Roosevelt later did). A speechwriter for Roosevelt and later Truman claimed "trickle down" policies were imposed by Republicans starting in 1921.

The odd part of all this is that those who expand the government are never accused of trickle-down economics. Spending on the Green New Deal was touted as a way to "create jobs" via clean energy investment and at the same time, reduce income inequality by stopping global warming, which hurts lower income groups more all over the world. In other words, subsidizing big investment by a few large clean energy investors trickles down to help everyone.

At the same time, the economic impact of COVID lockdowns was offset by a massive increase in the money supply, an expansion of the Federal Reserve's balance sheet, and the monetization of a huge increase in government spending. These policies were designed to maintain consumption. The winners were large companies (like Amazon) at the expense of small ones. It was also a way to boost asset values, and through a process called the "wealth effect," would boost spending.

And it worked! According to the Federal Reserve, the top 1% of households now own 28.3% of assets, a record high and much higher than the 20.3% that prevailed in mid-1989 after nearly a decade of supply-side policies. Moreover, true supply-side policies of the 1980s brought inflation down rapidly, which helped living standards soar. Policies of recent years have boosted inflation, which caused a double whammy on lower income groups. This is where the entire debate about "affordability" came from and a key reason for rising inequality.

In other words, COVID policies have been a "demand-side" version of trickle-down economics fueled by government redistribution of wealth toward top income groups.

Clearly, policies which boost individual freedom, not government engineering, work best. And as usual, the arguments of one political party are often designed to hide the fact that their policies are the very thing they claim to detest in the other.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-17 / 7:30 am	Empire State Mfg Survey – Nov	5.8	-1.0	18.7	10.7
11-20 / 7:30 am	Non-Farm Payrolls – Sep	57K	90K		22K
7:30 am	Private Payrolls – Sep	70K	100K		38K
7:30 am	Manufacturing Payrolls – Sep	-5K	-7K		-12K
7:30 am	Unemployment Rate – Sep	4.3%	4.3%		4.3%
7:30 am	Average Hourly Earnings – Sep	+0.3%	+0.3%		+0.3%
7:30 am	Average Weekly Hours – Sep	34.2	34.2		34.2
7:30 am	Philly Fed Survey – Nov	0.0	3.0		-12.8
9:00 am	Existing Home Sales – Nov	4.100 Mil	4.120 Mil		4.060 Mil

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