

Supply-Side Arguments for Tax Reductions, 2017, 2025 or Beyond



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Tax policy is “on the ballot,” so to speak in the 2024 US Presidential election. Trump’s economic advisors are arguing for an extension of the rate reductions in the 2017 Tax Act, which some have deemed “supply side, as were the Reagan tax cuts during the 1980s. The economic argument for supply side tax rate reductions drew on a policy mix framework developed by Robert Mundell as early as 1962. Within that framework, the easy fiscal/ tight monetary policy solution was intended for circumstances of either pressure on reserves or the exchange rate (as during the Kennedy Administration) or of serious domestic inflation (as under the Carter and Reagan Administrations). Tax cuts in the US since the 1980s have not had the intended stimulus effects because neither the currency weakness nor inflationary preconditions have existed. Absent such conditions, tax rate reductions will generate either domestic overheating or a redistribution of income to those in higher brackets. Any argument in favor of the 2017 Tax Act, or for a similar tax reduction in 2025 or 2026, should not fall back on Mundell’s policy mix advocacy. In contrast, the case for an easy fiscal/ tight money policy may have unexpected force in situations of fixed exchange rates, or where domestic monetary policy options are otherwise constrained or absent – as has been the case in Eurozone periphery countries.

Biography:

Clark Johnson worked for much of two decades in economic development in the Middle East and central Asia, including as a contractor, direct employee and team leader with the US State and Defense Departments. He is the author of *Uncommon Arguments on Common Topics: Essays on Political Economy and Diplomacy* (KSP Books, 2022), and of *Gold, France, and the Great Depression, 1919-1932* (Yale, 1997), which received an award from the Association of American Publishers. Recent papers include “Did Keynes Make His Case?” (2016), “Supply-side Economics and the 2017 Tax Act” (2018), “A Different Cold War? the 1963 European Settlement and Aftermath (2022), and “From Keynes’ Clearing Union to the Eurozone and the Renminbi”(2022). He is an economics advisor to Trade Engine LLC, a software development firm, and tutors students in economics, finance, French and German. He has taught finance or international economics at three universities. He has a PhD (1994) in Economic and Diplomatic History from Yale University.