

# **Financing the American welfare state in hard times: welfare and the politics of tax cuts (1930s-1980s)**

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- Paradox: liberal legislators often coupled ambitious anti-poverty measures with large tax cuts

# The American welfare state

## **The New Deal (response to the Great Recession):**

- 1935 Social Security Act: old age insurance, unemployment compensation, public assistance for the poor and the disabled
- Housing subsidies and public housing for low-income people, guaranteed loans

## **The « War on Poverty » (1964)**

- Aid to education, health insurance for the poor and the elderly, financial aid to fight off urban poverty, job programs, food stamps

# The New Deal

- Reluctance to create new direct taxes
- Hidden payroll taxes

# The Kennedy-Johnson Tax Cuts (1962-1964)

- Tax cuts and growth
- Kennedy's team of neo-Keynesian economists (Council of Economic Advisers): John K. Galbraith, Walter Heller, James Tobin
- A \$11billion cut in individual tax rates and \$2.6 in corporate rate reductions

# The War on Poverty (1964)

- Revenue Act of 1964: cut revenues by \$11 billion
- Annual spending on public welfare programs almost doubled (\$2.1 billion to \$4.1 b.) between 1961-1967

- **Molly Michelmore:** « the transformation of tax politics in the Nixon Administration » was a critical aspect of the transformation of the Republican Party and American politics in the 1970s

# Tax revolts in the 1970s

- Campaign for Proposition 13 in California (1978): placed a cap on property tax rates
- « The people who wrote the Constitution said the people of the United States shall be protected in their life, liberty and property. They didn't say life, liberty and welfare, or life, liberty and food stamps »



# Tax cuts in the 1980s

- 1981 Economic Recovery Act: top income tax rate lowered from 70% to 50%
- 1986: Tax Reform Act: 28%
- 30% of the tax cuts targeted social programs for the poor (public assistance and Food stamps)





