



Unravelling the New World Order

*An Exposé of How Government, Religious, and Financial Insiders
Are Deciding Your Future*

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Tax Cuts Actually Work!

By Chuck Bates

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Recently, President Obama delivered his State of the Union address to Congress, outlining the goals of his administration. Regular readers of this column know that I am not a fan of the policies of this administration. However, I must say in his address to Congress he made one of the dumbest statements any leader can make with regard to the economy; while blaming the previous administration for our current economic crisis, he said, "Most of this was the result of not paying for two wars, two tax cuts and an expensive prescription drug program."

Let's dissect this statement to unveil what represents either terrible ignorance of the subject or malice toward basic economics.

I would not disagree that wars cost money; but beyond maintaining and training our military forces, we don't budget for a war until we get into one! Obama's comment on prescription drugs was accurate; however, given that he proposes to do that *and more* with his grand healthcare scheme, it was blatantly hypocritical.

But those were not the dumbest of his remarks. That award goes to the notion that the previous administration did not "pay for two tax cuts." When he said this I nearly fell out of my chair; anyone with a basic knowledge of economics or history knows that tax cuts pay for themselves. This has been proven time after time, even in the relatively short history of the United States. Reagan proved that cutting taxes actually expands the economy, and the end result is more money – *not less* – for government. Reagan was not the only president who understood this; John F. Kennedy proved it 20 years before Reagan, but even he was not the first to cut taxes for the benefit of the economy. The economic vigor of the "Roaring 20's" was largely a result of the efforts of Andrew Mellon, who served as Treasury Secretary under three administrations. And before Mellon, President James K. Polk proved this theory by convincing Congress to reduce the taxes under the Tariffs Act. That so aided the economy that the government was able to pay for the huge expense of the war with Mexico and expand the territory of the Nation from coast to coast.

Let's focus on Mellon's efforts in bolstering the economy by reducing taxes. In 1913, the Congress debated putting a cap on income taxes at 3%. Many "progressives" at the time argued we would never see 3%, so there was no need for a cap. Barely a decade later, the highest tax rate was already over 73% of income! (This proves there is nothing bigger than a politician's foot once it is in the door!) Mellon was already a very successful financier responsible for the birth of a litany of companies and endeavors known to us today: Alcoa Aluminum, B.F. Goodrich tires, and entitles that funded research that made huge advances in steel production through recycling coal and industrial waste byproducts. Mellon took his understanding of business and the economy to Washington in the service of Presidents Harding, Coolidge and Hoover. Mellon surmised that if Congress cut taxes across the board for every income level, the result would be a much healthier economy,

which would create additional revenues, and in turn, additional tax revenue for the government. His proposal worked, and by the late 1920's the highest tax rate had been reduced to 24% of income. This benefited the poor as well, because the lowest tax rate was reduced from 4% to a mere 0.5% of income.

The economy was roaring along, and would likely have continued had it not been for the Federal Reserve's interference. The Federal Reserve had expanded the money supply 18 months prior to the crash of 1929; but in the six months just preceding the crash, they drained the money supply and literally precipitated the credit crunch and ushered in the depression.

This, of course, ruined Hoover's chances of re-election. FDR came to the fore, taking the exact opposite approach with his "progressive" plans for the economy. FDR's administration lobbied for higher taxes and more government control over business and the markets. Sound familiar? By the end of FDR's reign the highest tax brackets had exploded to nearly 80% and the resulting flight of capital from the nation required him to impose an excise tax on top of it! These types of policies were largely responsible for prolonging the Great Depression; and ultimately, it would require a World War and wartime spending to start moving the economy out of the mess created by "progressive" economic policies.

Simply put, *tax cuts pay for themselves* because they leave more money in the individual's pocket; in turn, more of the money can be spent into the economy, thus increasing the velocity of the money supply and easing the credit crunch that has plagued our nation over the last couple of years.