Reaganomics 2.0

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Earlier this year the cover of Time Magazine depicted Ronald Reagan with a tear running down his cheek -- the message being that the political class has abandoned the Reagan legacy. There's no doubt Reagan's pro-growth, tax cutting philosophy is in full-scale retreat: This Congress has proposed higher tax rates on personal income, capital gains and dividends. Ironically, the Reagan economic philosophy of lower taxes, less regulation and free trade has never been more in vogue abroad -- so much so that it has become the global economic operating system.

Let's call this phenomenon Reaganomics 2.0.

In the Pacific Rim nations, for example, Malaysia, New Zealand, Singapore, Taiwan and Vietnam all have cut taxes this year or have plans to do so. Singapore has cut taxes multiple times in recent years and it now operates with no capital gains tax.

But the remarkable attitudinal shift on taxes has been in Europe, which in the 1980s and '90s showcased their gold-plated social safety nets, boasted of their citizens' willingness to pay high tax rates to maintain them and were openly contemptuous of the Reagan tax-cutting philosophy. Now those same nations of old-Europe seem to be in a sprint to see which country can get their tax rates lowest quickest. Nicholas Vardy, the editor of "The Global Guru" economic newsletter calls the phenomenon "Europe's Reagan Revolution."

French President Nicolas Sarkozy has plans to cut his country's business income tax by at least five percentage points as part of his economic rehabilitation plan. Spain and Italy are negotiating plans to lower their corporate tax rates, and the U.K. already did so earlier this year. Sweden and Russia last year eliminated their estate taxes because they said the tax was economically counterproductive. In Germany under Chancellor Angela Merkel, the corporate tax rate has been reduced to less than 30% from 39%.

Some of this tax chopping in Old Europe is a response to the success of the U.S. tax rate reductions and the fast pace of job creation that ensued from economic growth -- though few European officials will acknowledge that reality. But a bigger factor more recently has been the impact of the flat-tax revolution in Eastern Europe. Dan Mitchell of the Cato Institute says there are now 14 nations with flat taxes, 10 of them in nations formerly behind the Iron Curtain. "The pace of tax reform in these nations is so frantic, that it's hard to keep up to date with the changes," he says. Poland hasn't yet established a flat tax, but recently cut its business tax to 19% from 27%.

Austria cut its corporate tax rate to keep pace with its neighbor, Slovakia which recently adopted an 18% flat tax. Singapore is cutting taxes to compete with its 16% flat-tax rival Hong Kong. Northern Ireland wants to cut its tax rates so that it can compete with the economic gazelle of Europe, the Republic of Ireland. In 1988 Ireland was a high-unemployment stagnant economy with a 48% corporate tax rate, today that rate is 12.5%

and the rest of the world is now desperate to match its economic results. Meanwhile German Finance Minister Peer Steinbrueck sold the latest tax cuts as "an investment in Germany as a business location."

The idea that jobs, businesses and wealth follow low tax rates is widely accepted. Nguyen Van Ninh, head of the Department of Taxation in Vietnam is typical. He concedes that the corporate tax cuts may lose revenues, but "on the other side, the business environment will become more and more attractive, resulting in increased investment."

This is all very good news -- except in the U.S. Arthur Laffer, one of the architects of the Reagan tax policies, believes that one major explanation for the strength of the euro and the weakness of the dollar in recent years, is the divergent paths on tax policies on the two sides of the Atlantic. Europe is cutting levies, while the only debate among the political class in Washington is how high to jack them up.

Still, it is a testament to the Reagan economic revolution launched in 1981 that, a quarter century later, global tax rates are 25 percentage points lower on average today than in the 1970s. And those figures don't even include this latest round of chopping under Reaganomics 2.0. The enactment of supply-side policies is helping ignite one of the strongest and longest world-wide economic expansions in history. Yet few are giving Reagan or his ideas the credit. Mr. Vardy points out that there are only two official statues of Reagan in Europe. Last month the Poles unveiled one financed by an American entrepreneur. The first was erected in Budapest to commemorate Reagan's "tear down this wall" speech in Berlin. Now tax walls are being torn down.

Alas, there's only about one place on the planet where politicians hold Reaganomics in outright disrepute today -- and that is here. The Democratic leadership in Congress believes that tax rates don't matter much if at all, and that the Bush tax cuts were a giveaway to the rich. Presidential candidate John Edwards has even suggested a near doubling of the U.S. capital gains tax rate as part of his economic program, and his rivals all have schemes to soak the wealthy as well.

All of this threatens to move America from leader to laggard in the global race for job creation, capital investment and prosperity. Maybe that explains the tear rolling down the Gipper's cheek.

Mr. Moore is a member of the Journal's editorial board.

Questions:

1. What is the Reagan economic philosophy?
2. Discuss how low tax rates affect the labor market, business investment, and economic growth.
3. Discuss the difference in the attitudes towards Reaganomics between the U.S. and other counties.