

Will Taxing the Rich Help? – Do *Any* Tax Increases Help?

by Bob Webster, WEBCommentary.com, February 8, 2012

Reagan Tax changes that cut the top tax rate from 70% to 28% were fully implemented in 1983. Ever since, an oft-heard Liberal/Progressive/Democrat chant has been “Reagan-Bush tax cuts for-the-rich” are at the core of our federal fiscal problems. Chanters seldom take a critical look at federal spending (except, of course, for defense) and steadfastly maintain that we need only raise taxes on the rich to solve our fiscal problems.

Chants are one thing, reality is quite different — Reaganomics worked.

Itemized below are the real consequences of those Reagan tax cuts as revealed in a November 2011 article (“[Reaganomics and the American Character](#)”) by former Sen. Phil Gramm (Texas) appearing in Hillsdale College’s *Imprimis*. I highly recommend reading the full article:

- In 1979, the top 1% of income earners in America paid 18.3% of the total tax bill. By 2006 (the last year for which we have reliable numbers) the top 1% were paying 39.7% of the total tax bill.
- In 1979, the top 10% were paying 48.1% of the total tax bill. By 2006 they were paying 78.8% of the total tax bill.
- In 1979, the top 40% were paying 85.1% of the total tax bill. By 2006 they were paying 98.7% of the total tax bill.
- In 1979, the bottom 40% were paying 4.1% of the total tax bill. By 2006 they were *receiving* 3.3% in direct payments from the U.S. Treasury!
- In the 12 years prior to the Reagan program, economic growth averaged 2.5%. For the following 25 years, it averaged 3.3%.
- In the 12 years prior to the Reagan program, per capita GDP, in real terms, grew by 1.5%. For the 25 years following implementation of the Reagan program, real per capita income grew by 2.2%.
- By 2006, the average American was making \$7,400 more than he/she would have made if growth rates had remained at the same level as they were during the 12 years prior to the Reagan program.
- During the 12 years prior to Reagan, America averaged 1.3 million new jobs per year. During the Reagan years, America averaged 2 million new jobs per year. That means as of 2007 there were 17.5 million more Americans at work than would have been working had the growth rates of the pre-Reagan era continued.
- Inflation, which had been 7.6% for the previous 12 years, fell to 3.1%.

So much for the chants.

This all occurred despite the subsequent tax increases of President George H. W. Bush, the Democrat-initiated tax hike and Republican-initiated tax reduction under President William J. Clinton, and the broad-based tax reductions of President George W. Bush.

Tax hikes depress real wages.

Reviewing tax increases and reductions under Clinton provides an interesting contrast in the effects of the two policies (tax increases promoted by Democrats and tax reductions promoted by Republicans). From a Heritage Foundation article by J. D. Foster, Ph.D. (March 2008), "[Tax Cuts, Not the Clinton Tax Hike, Produced the 1990s Boom](#)":

The Clinton years present two consecutive periods as experiments of the effects of tax policy. The first period, from 1993 to 1996, began with a significant tax increase as the economy was accelerating out of recession. The second period, from 1997 to 2000, began with a modest tax cut as the economy should have settled into a normal growth period. The economy was decidedly stronger following the tax cut than it was following the tax increase.

The article provides a stark comparison of the economic consequences of both the Clinton-era taxes increase and tax decrease. That comparison clearly reveals the benefits of the tax decrease over the tax increase:

The economy averaged 4.2 percent real growth per year from 1997 to 2000—a full percentage point higher than during the expansion following the 1993 tax hike. Employment increased by another 11.5 million jobs, which is roughly comparable to the job growth in the preceding four-year period. Real wages, however, grew at 6.5 percent, which is much stronger than the 0.8 percent growth of the preceding period.

One of the great benefits of the Gingrich-led Republican-initiated tax cut proposal in 1997 was its reduction of the capital gains tax rate from 28% to 20%. The importance of this facet of the tax cut ("for the rich", of course) was that it provided both a source of funds and a great incentive for venture capital growth (note venture capitalists at Romney's Bain Capital). A further reduction to 0% would eliminate unfair double-taxation while providing a vast new influx of venture capital for future job creation in the private sector.

Capitalism works — Why venture capital is so important.

To increase real American jobs, we need businesses to provide those jobs (government certainly will not). Reagan's tax cuts lifted America out of the years of Carter's economic malaise by changing a recession into a vibrant economic expansion.

How do tax cuts help our economy? By providing capital for job creation that increases employment. To achieve this and end the recession, there must be an infusion of venture capital to invest in economic expansion. Venture capitalists are wealthy investors whose wealth they are willing to put at risk to fund new ventures or expand or rescue existing

marginal ventures. Such investment is high risk for a high payoff, and comes with no guarantee of success.

Subsequent to the 1997 GOP-led tax cuts, the great technology revolution of the 1990s was given a boost by venture capitalists putting some of their invested money at risk. They could realize capital gains without the severe penalty of an excessive tax rate. The consequent explosion of new business is what sustained the continued economic boom in job growth at a time when job growth would normally settle down from the expansion of the early 1990s.

Even more important for workers was that their real wages increased more than eight times what they had been as a consequence of Clinton's tax hike in the early years. Which would *you* prefer? A wage hike of 6.5%, or one of 0.8%?

A benefit of the successful robust economy fostered by Republican-led tax cuts and budget surpluses of the late Clinton years, was that along with everyone else, venture capitalists increased their wealth. That is a healthy result because it provided even more money to invest in new enterprises.

What is different about the business climate today and why is there little venture capital activity? For the answer, look no further than the massive anti-capitalist sentiment and expansion of new federal regulations under Obama.

Just what *is* a Democrat's idea of "fair share" when "the rich" already pay infinitely more than at least 40% of Americans, who have no direct stake at all in federal tax rates?

While the Obama administration openly *discourages* new business formation and venture capitalist investment, it *encourages* the "Occupy Wall Street" silliness that is rooted in a fundamental ignorance of how capitalism works for the benefit of everyone.

With demagogic statements like "the rich aren't paying their fair share" and open encouragement of the "Occupy" movement, it is no wonder that capitalists are sitting on the sidelines, carefully measuring how to protect their wealth from those who would plunder it for political advantage.

The irony of this "Occupy" silliness and their preoccupation with stealing from the rich is that even confiscating the wealth of the "super-rich" would not make much of a dent in our unsustainable debt-building.

Confiscating the wealth of the rich will not work.

Had the federal government *confiscated all the adjusted gross income (AGI)* of those reporting an AGI of at least \$10 million (13,403 taxpayers) in tax year 2008, the additional revenue would have amounted to just \$262 billion (<http://www.irs.gov/taxstats/indtaxstats/article/0,,id=129270,00.html>)! Actual taxes paid by the "super-

rich” (those with AGI of at least \$10 million) in 2008 amounted to \$86 billion. Total federal spending (budget items) was \$2.983 trillion with total revenues of \$2.524 trillion, creating a deficit of \$459 billion. Had the IRS taken the additional \$262 billion of AGI from the super-rich it would still have left a deficit of \$197 billion!

Obamanomics doesn't work — Raising taxes will not solve our fiscal problems because lowering taxes did not create them.

Let's look at the “progress” under Obama and his Democrat majority Congress, by using 2010 as the most recent year for which revenue/spending data exist. In 2010, total federal spending (budget items) was \$3.456 trillion with total revenues of just \$2.163 trillion, creating a deficit of \$1.293 trillion.

As revenues actually decreased from 2008 (courtesy, the Obama recession), we could reasonably estimate the AGI of the super-rich had also declined (real data are not yet available from the IRS). But, for the sake of this discussion, let's assume the super-rich *maintained the same* income level they had in 2008. Had the IRS confiscated their total adjusted gross income in 2010, it would have reduced the deficit for 2010 from \$1.293 trillion to \$1.031 trillion. Still over a trillion dollars in deficit spending!

While recession-impacted revenue to the IRS *dropped* from \$2.524 trillion in 2008 to \$2.163 trillion in 2010 (a 14% *decrease*), federal spending under Obama and the Democrat Congress *increased* from \$2.983 trillion to \$3.456 trillion (a 16% *increase*)!

What do Obama Democrats claim? That we can solve our problems by “taxing the rich”. Yet, the numbers right from the US Government inform us that even by *confiscating* the income of the super-rich, we could barely dent the obscene growth of federal debt.

It is crystal clear no basis exists for Obama's demagoguing claims that our fiscal problems could be solved by taxing the rich at a higher rate! It is also quite evident that Congress' lack of resolve to curtail public spending is the real cause of our fiscal crisis.

It is the under-40 voters, whose future will suffer most from a continuation of Obamanomics while Obama demagogues and obfuscates the real cause of our fiscal insolvency. Ironically, it is that same demographic from which Obama draws his greatest electoral support! This is a sad commentary on the declining state of public education in our nation.

Finally, a simple, yet puzzling question — Why has not a single Republican used any of this information to counter Obama's claims our fiscal crisis exists because the “rich” aren't paying their fair share?

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(a hat-tip to my good friend, Stan Christodlous, for alerting me to the Gramm article)