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Will Higher Taxes on the Rich Kill Jobs?

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Will raising income taxes on the rich hurt or help the economy? That's the key question that Congress will be debating as they consider whether to extend the tax cuts enacted by President George W. Bush in 2001 and 2003, which are set to expire at the end of the year.

As he pledged during the 2008 campaign, President Obama, along with most Congressional Democrats, wants to maintain the Bush 2001 tax cuts for the middle class but allow them to expire for high income Americans. Business groups and Republicans are, predictably, claiming that such a plan would "kill jobs," harm small businesses, and deepen the recession. They are crying wolf, but they repeat their misleading warnings so often -- and the media report them as if they were true -- that many Americans believe them.

Obama's proposals would only eliminate the Bush tax cuts for the wealthiest two percent of taxpayers -- the people in the two highest tax brackets. For individuals with incomes over $373,650, the top income tax rate, currently 35 percent, will return to 39.6 percent, where it comfortably rested for the entirety of the Clinton boom. Individuals with incomes between $171,850 and $373,650 will see their tax rate will climb from 33 to 36 percent. Someone earning $500,000, who now pays $149,371 to Uncle Sam, will owe another $11,349. If you're earning, $1 million a year, your taxes will increase another $34,350 (these numbers were obtained using the Tax Policy Center's Tax Calculator).

Republicans and their conservative think tank allies claim that these modest increases in the top marginal tax rates will destroy the economy. The logic behind this is classic trickle-down economics: high-income people shouldn't pay higher taxes because they make critical investment decisions which, in turn, create jobs.

The trickle-down theory assumes that the rich are so extraordinarily sensitive to changes in the tax code, no matter how minor, that they will automatically respond by working and/or investing less, which translate to fewer jobs. Raising taxes on the nation's rich, even a little bit, will thus undermine economic growth.

In fact, during the 1950s and early 1960s, when America experienced its most impressive stretch of sustained growth, marginal tax rates on the rich were the highest they've ever been -- 91 percent for the top bracket. Meanwhile, during the last decade, when top tax rates were at one of their lowest points in recent history, the US economy experienced its slowest annual growth rate since the Great Depression. Domestic economic growth from 2001 to 2007 averaged 2.39 percent per year (and growth from 2001 through the third quarter of 2010 averaged 1.66 percent). Even during the period between 1971 and 1980 -- the decade with the second-worst showing for growth -- annual growth averaged 3.21 percent.

"The rich are always going to say that, you know, just give us more money and we'll go out and spend more and then it will all trickle down to the rest of you," Warren Buffett, the world's third wealthiest person, recently told ABC News' Christiane Amanpour: "But that has not worked the last 10 years, and I hope the American public is catching on." Buffet joined more than 40 of the nation's millionaires -- part of a group called Patriotic Millionaires for Fiscal Strength -- to ask President Obama to discontinue Bush's tax breaks for the rich.

Republicans would rather not have a debate about whether CEOs of bailed out financial firms, hedge fund managers, or energy company executives can afford paying taxes at the top tax brackets during the Clinton years. So they focus their sound bites on the revered, but mostly misunderstood, small business sector. "The last thing you would want to do is raise taxes in the middle of a recession on our most productive small businesses," Senate Minority leader Mitch McConnell said in a September interview with Fox News.

According to the Center on Budget and Policy Priorities, extension of high income tax cuts would do little to help the overwhelming majority of small businesses. *Businessweek* reported that the Congressional Research Service analysis found that "Small businesses with actual workers would pay only about 12 percent of the higher taxes." Furthermore, small business employment rose by an annual average of 2.3 percent -- or 756,000 jobs -- during the 1990's when top tax rates were at the levels they'll return to if the cuts expire. By contrast, between 2001 and 2006 -- after the Bush cuts took effect -- small business employment rose at only 1 percent annually -- or 367,000 jobs.

But conservatives and Republicans don't care whether there's any evidence for their dire warnings about higher taxes. To them, it's more like a religious belief than a matter of evidence. U.S. Chamber of Commerce economist Martin Regalia recently called the Obama tax plan "a bullet in the head for an awful lot of people that are going to be laid off and an awful lot of people who are hoping to get their jobs back." The business-sponsored Heritage Foundation agonizes: "The Obama Tax Plan Would Eliminate Hundreds of Thousands of Jobs Each Year." The Heritage report claims that GDP will fall by $1.1 trillion over the next decade if the proposal moves ahead, while Americans can expect an average of 693,000 lost jobs per year over the same period. According to the Heritage folks, business investment, investment in housing, personal savings, disposable income, and consumer spending will all be subject to catastrophic ruin as well. On Fox News, former Speaker Newt Gingrich said that raising taxes will "kill jobs."

But they are simply recycling the same "cry wolf" claims they've used whenever anyone proposes to raise taxes. They did it in 1982 when Ronald Reagan decided to address the swelling deficit, and again in the 1993 battle over Clinton's budget. Their dire warnings weren't true then and they aren't true now.

Reagan's Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 was the single largest peacetime tax hike in the nation's history. The act was meant to alleviate a deficit swollen by dramatic increases in defense spending and the massive tax cuts of the Economic Recovery Tax Act of 1981, which dramatically slashed taxes across the board. TEFRA was so unpopular with hardcore conservatives that Representative Jack Kemp (R-NY) ran an insurgent campaign against it, sparking speculation that he would challenge Reagan from the right in the GOP primaries in 1984. "There's no way we can get out of this recession by raising taxes," Kemp (R-NY) warned at the time, echoing the mantras of the Chamber of Commerce, the *Wall Street Journal*, and ultra-conservatives like Congressman Newt Gingrich. But contrary to the claims of Kemp's faction, the economy started to expand only after the passage of the TEFRA tax hikes, which negated around one-third of Reagan's 1981 cuts. Growth surged by almost nine points between the end of 1982 (when TEFRA kicked in) and the second quarter of 1983.

Likewise, Clinton faced ferocious opposition to his 1993 budget plan which raised the top marginal rates to 39.6 percent from 31 percent. At the time, Congressional Republicans predicted doom. "The deficit will be worse," Representative Dick Armey (R-TX) warned in a CNN interview. "The impact on job creation is going to be devastating, and the American young people in particular will suffer...there simply won't be jobs for the next two to three years to go around to our young graduates."

Former Congressman and former SEC chair, Christopher Cox, speaking to the House in May 1993 about impending doom, declared, "This is really the Dr. Kevorkian plan for our economy. It will kill jobs, kill businesses, and yes, kill even the higher tax revenues that these suicidal tax increasers hope to gain."

The Heritage Foundation predicted that Clinton's 1993 tax proposal would lead to job loss and economic disaster. According to a May 1993 Heritage backgrounder claimed:

> The Clinton tax hikes on income would have a devastating impact on long-term economic growth. In particular, the increase in the tax burden would reduce savings and investment, thus hampering the economy's capacity to generate new jobs and higher wages. Specifically, higher tax rates on income would punish productive economic activity, reduce tax revenues, lead to increased federal spending and higher budget deficits, reduce job creation and penalize small business.

The doomsayers were wrong then as they are wrong now. When Clinton signed the budget bill into law, the nation's unemployment rate stood at 6.9 percent and the deficit was more than $255 billion. Every year thereafter unemployment and by 2000 the jobless rate was at 4.0 percent, the lowest of any year since 1968. The deficit shrank until, in 1998, the federal government was able to boast of a budget surplus for the first time since 1969.

The conservatives that cried wolf about these tax increases also claimed George W. Bush's tax cuts would spur economic growth, job creation and balanced budgets. Instead, they turned surplus into deficit, the first decline in household income since records were kept in 1967, the slowest job growth since WWII, and Gilded Age level income growth for the super-rich.

It isn't just Fox News that cries wolf. Despite all evidence to the contrary, conservative think tanks, Republican politicians, and business lobby groups continue to issue warnings that modest tax hikes on rich Americans will hurt the economy. They are lying now like they lied before.

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