American Thinker

Return to the Article

September 26, 2011

The Cynicism of Obama's Soak-the-Rich Policy

By Steve McCann

Barack Obama is plumbing the depths of cynicism and expedience as he has embarked on a campaign of overt class warfare and demagoguery in order to win reelection and shift the spotlight off the economic and societal failures of his policies.

Whenever the American left are in power and their economic policies of socialism (papered over with a capitalistic veneer) fails, it is as certain as the change in the seasons that they will claim that the cause of the failure is that the so-called rich do not pay their undefined "fair" share in taxes. Thus they will push for higher rates in the inane belief that by raising the rates, the revenue to the government will grow by an equal percentage, as they attempt to rally the populace into a unified anger over the need to punish a perceived foe.

However, history has a way of intruding on this misbegotten philosophy. The federal income tax has been in effect since 1913. Since that time the top marginal rate has bounced around from 7% to 92%. However, there has been one immutable fact that has evolved from the experience of the past 98 years: when tax rates are reduced, combined with firm spending controls on government, the economy's growth rate improves and the standard of living for all Americans expands. A codicil to that fact: tax revenues to the government increase and the "rich" pay more taxes; as a result, the lower income citizens bear a lower share of the overall tax burden. When the opposite policy, together with uncontrolled government spending, is pursued, economic downturns are inevitable.

When first adopted, the income tax rate on the wealthiest Americans was 7 percent. However, it didn't take long to justify a massive increase. Woodrow Wilson, using the 1st World War as an excuse, soon (within 4 years) increased that rate to 77%. As a result of the excessive taxation, inflation topping 20% at the end of the war, and a subsequent dramatic deflation in prices, the Gross Domestic Product fell by 16% from 1919 to 1921, unemployment hit nearly 12 percent, and a full-blown depression started under Wilson's tenure.

In order to combat the high unemployment and stagnant economy in 1920-21, the Harding and Coolidge administrations under the guiding hand of Treasury Secretary Andrew Mellon dramatically cut federal spending and reduced the top marginal tax rate from 73% in 1920 to 25% by 1925. What happened?

Per Veronique de Rugy of the Cato Institute:

> Detailed Internal Revenue Service data show that the across-the-board rate cuts of the early 1920's -- including large cuts at the top end -- resulted in greater tax payments and a larger share paid by those with high incomes. The share of overall taxes paid by the [high income] groups rose from about one-third in the early 1920's to almost two-thirds by the late 1920's. [Total annual tax revenues to the government increased by more than 61 percent from 1921 to 1928.]
>
> The tax cuts allowed the U.S. economy to grow rapidly during the mid and late 1920's. Between 1922 and 1929, real gross domestic product grew at an average rate of 4.7 percent and the unemployment rate fell from [11.7 percent in 1921] to 3.2 percent.
>
> The rising tide of strong economic growth lifted all boats. At the top end, total income grew as a result of many more people becoming prosperous. Between 1922 and 1928 ... the number of taxpayers earning more than $100,000.00 per year quadrupled.

In 1961, recognizing that high tax rates were hindering the economy, President Kennedy proposed an across-the-board tax rate reduction of 25 percent. The end result: annual tax revenues increased by 62 percent from 1961 to 1968 while the economy grew at average of 4.2 percent per year.

The massive inflation of the late 1970s had pushed millions of taxpayers into higher tax brackets, although their real incomes were not rising. Further, the economy was in a severe recession, inflation was rampant, and the unemployment rate stubbornly averaged above 9-10 percent. To help offset this lethal combination of economic factors, President Reagan proposed sweeping tax rate reductions and spending controls. Once the tax cuts were implemented in 1982-1985, annual income tax revenues climbed 54 percent during the balance of the 1980s. The unemployment rate fell from 10.2% to 5.3% as the economy grew by an average of 4.5 percent per year. The share of total income taxes paid by the top one percent of tax filers increased from 17.6 percent to 27.5 percent. (Today the top one percent pays 39 percent of all income taxes.)

By comparison, Herbert Hoover and particularly Franklin Roosevelt took a completely opposite course. At the end of his administration and running for reelection, Hoover foolishly raised tax rates in order to theoretically close a large budget gap. Roosevelt motivated by his admiration of socialist/fascist philosophy, also increased the marginal tax rates on the so-called "wealthy" of the day.

In 1930, the highest marginal rate was 25 percent. That was increased to 63 percent in 1932 and 79 percent in 1936. Tax revenues to the government remained stagnant throughout the entire decade, as did annual Gross Domestic Product growth, which was near zero. The average unemployment rate was 17.9 percent from 1930 to 1939. The wealth of Americans overall dropped by more than 20 percent. It was no coincidence that the worst years of the Great Depression occurred the year following these massive tax rate hikes.

The entire decade of the 1930s was a disaster because of the quasi-fascist policies of government intrusion and attempted control of all aspects of the economy as well as massive government spending pursued by Franklin Roosevelt. A major feature of this strategy was the demonization of the wealthy along with punitive increases in the overall tax rates. While the overall tax rates were increased by nearly 200%, the income tax revenue realized by the government actually declined.

It is now acknowledged that the Great Depression was prolonged by as many as five to seven years by the populist and demagogic policies of Franklin Roosevelt. The current regime in Washington, in what has been acknowledged to be the worst recession since the Great Depression, is operating from the same playbook with similar results.

In 1921 Andrew Mellon said: "The history of taxation shows that taxes which are inherently excessive are not paid. The high rates inevitably put pressure upon the taxpayer to withdraw his capital from productive business." This was echoed by President Calvin Coolidge: "The wise and correct course to follow in taxation and all other economic legislation is not to destroy those who have already secured success but to create conditions under which everyone will have a better chance to be successful."

John F. Kennedy in 1961: "It is increasingly clear that no matter what party is in power, so long as our national security needs keep rising, an economy hampered by restrictive tax rates will never produce enough revenues to balance our budget just as it will never produce enough jobs or profits."

By comparison, Barack Obama, determined to exploit political and societal divisions, falsely claims: "If we choose to keep those tax breaks for millionaires and billionaires ... then that means we've got to cut some kids off from getting a college scholarship." In reference to the current tax rates: "But we cannot afford $1 trillion worth of tax cuts for every millionaire and billionaire in our society. We can't afford it. And I refuse to renew them again." And in a lie that even the Associated Press could not ignore: "It is wrong that in the United States of America a teacher who earns $50,000 should pay higher tax rates than somebody pulling in $50 million."

There is a quote attributed to Vladimir Lenin which aptly describes the Obama regime: "There are no morals in politics; there is only expedience." Barack Obama and his fellow travelers are willing to tear apart the fabric and foundation of American society for their ideological and narcissistic ends.