THEBLAZE

POLICY-INFLUENCING ECONOMISTS: HIGHER TAXES WON'T 'DISCOURAGE WEALTHY FROM WORKING HARDER'

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Apparently, conservative economists have got it all wrong: high tax rates won't slow the economy or discourage people from working harder, or so say economists Emmanuel Saez and Thomas Piketty.

"Top 1 percent earners now make 20 times the average, while they made only 10 times the average in the 1970s," Saez, a professor of economics at the University of California-Berkeley, said in an e-mail to Bloomberg.

"If they worked hard then, they should continue working hard today, even if they are taxed at 50 percent," he added.

As of last month, at **39.2 percent,** the U.S. has the highest corporate income tax rate in the world (hooray for us?). The top federal tax rate is now 35 percent. Saez and Piketty believe top earners in the U.S. can take on way more than that — even a 50 percent tax rate.

And if you're telling yourself that these are just two random economists with a slightly "different" take on economic growth and taxation, think again. Their work has helped influence policy in both Washington, DC, and the European Union.

For instance, Peter Orszag, President Obama's former budget director, has said the two economists' research on income inequality "helped to point the way for the administration in its pledge to rebalance the tax code," according to Bloomberg.

Moreover, as mentioned previously on The Blaze, French presidential candidate François Hollande is campaigning on the Piketty-approved promise that he will hit anyone earning more than $1.3 million a year with a 75 percent tax rate.

Simply put, their theories on taxation and economic growth are effecting fiscal policy in both the U.S. and EU.

"The idea that we need to pay people many millions of euros per year to get them to work harder is just crazy," Piketty said in a telephone interview.

However, there is one point Piketty, Saez, and conservative economists agree on: the wealthy behave differently when their taxes are raised.

"They pursue financial strategies to reduce their taxable incomes and bargain for higher compensation, instead of cutting back on how much they work and save or becoming less entrepreneurial," Bloomberg's Rich Miller writes.

Saez and Piketty argue that the countries that reduced top tax rates the most since 1975 haven't grown faster than those that cut less, Miller adds.

But the two influential economists ignore "emerging-market economies" such as Brazil and India, which *have* lowered top tax rates and seen faster growth than developed nations, said Alan Reynolds, a senior fellow at the Cato Institute in Washington.
It's true: Brazil's economy has grown at an average annual rate of **3.6 percent** since 2000, which is more than *double* the eurozone's paltry 1.4 percent.

Nevertheless, Saez argues in favor of increasing top tax rates and says more efforts should be taken to close loopholes so that the "wealthy" can't avoid to the increases.

"Capital-gains taxes should be raised as well," said Saez, adding that an increase would "discourage" business owners from taking compensation in the form of shares, rather than salary, to avoid paying higher income tax.

"Saez and Picketty…have faced criticism for their research on income inequality," Miller writes. "Using tax returns, the two academic economists concluded that the top 1 percent of U.S. earners have more than doubled their share of income during the last half century, to about 20 percent in 2010 from less than 10 percent in the 1970s," he adds.

In fact, along with the economist Peter Diamond, Saez's work on the "1 percent" appeared in the "Occupy Handbook," which was published last month as a guide to the worldwide movement.

"I have no problem with the rich per se," Picketty said. "But what we're talking about is completely insane income in my view that people are just extracting from the economy which has nothing to do with their performance."

Read the full Bloomberg report here.
This article has been updated.