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Warren Buffett On The Myth Of High Taxes On Corporations

There's a certain amount of wonkishness and numbers soup in the above video, but the most important takeaway is that Warren Buffett is calling bullshit on the unending Republican Party claim that American corporations pay too much in taxes. They don't; in fact, they don't pay nearly enough. They're not carrying their weight-- and that means the rest of us are carrying *their* weight. "The interesting thing about the corporate rate," explained Buffett, "is that corporate profits, as a percentage of GDP last year were the highest or just about the highest in the last 50 years. They were ten and a fraction percent of GDP. That's higher than we've seen in 50 years. The corporate taxes as a percentage of GDP were 1.2 percent, $180 billion. That's just about the lowest we've seen. So our corporate tax rate last year, effectively, in terms of taxes paid for the United States, was around 12 percent, which is well below those existing in most of the industrialized countries around the world. **So it is a myth that American corporations are paying 35 percent or anything like it… Corporate taxes are not strangling American competitiveness.**"

Needless to say Joshua Holland had something to say essential to this discussion in his book The 15 Biggest Lies About The Economy. In fact, the whole book is essential to this discussion. But let's take just one aspect, the Republican Party lie that "tax cuts generate jobs." It's part of their crazy mantra that gets proven wrong over and over again but doesn't slow them down one bit.

The basic problem with the claim that “tax cuts stimulate the economy” is that “taxes” aren’t generic. You can cut taxes on companies or individuals or dole out cuts that fall more heavily on the rich or the poor. You can target tax cuts at investors or low-income families with young children. You can cut taxes on specific goods-- food or yachts-- and services, or in a specific geographic zone to encourage investment. And various recipients of those breaks-- whether companies or individuals-- will respond to those cuts with different kinds of changes in their economic behavior.

Yet another problem also exists... [T]here simply isn’t much correlation between various countries’ tax burdens and the relative strength of their economies. Some economic powerhouses have relatively low tax rates; others’ rates are relatively high.

...In 2008, [Larry] Beinhart took a look at a fog fact about taxes. He compared two sets of data, historic income tax and GDP growth rates in the United States, and concluded, “The brute facts” are as follows:

- High income taxes correlate with economic growth.
- Income tax increases are followed by economic growth.
- Moderate income tax cuts are followed by a flat economy.

Beinhart went through the specifics:

1. **High taxes correlate with strong economic growth.** The four periods of greatest economic growth in U.S. history, by pretty much any measure, are World War II (1941–1945): The top tax rate varied from 88 to 94 percent. Postwar under Truman and Eisenhower: The top rate bounced around from 81 to 92 percent. The Clinton years: Clinton raised Bush’s top rate of 31 percent to 37 percent and then to 39 percent. The first two Roosevelt administrations (1933-1940). When Roosevelt came into office, Hoover had already raised the tax rate in 1932 from 25 percent to 63 percent. Roosevelt raised it again in 1936 to 79 percent.

A lot of ink, sweat, and ranting have gone into proving that the New Deal did not end the Great Depression. Nonetheless, the economy grew 58 percent from the time Roosevelt came into office to when the United States entered the war. Some of that anti-New Deal rhetoric also claims that the recovery began under Hoover. Perhaps, but to say so is also to say that it began with tax hikes.

Likewise, many right-wing critics insist that the Clinton boom actually started under Bush the First. It is necessary to remember that Bush the First also raised taxes (from 28 percent to 31 percent) and was soundly thrashed by the conservatives for doing so. Stephen Moore of the Cato Institute called it “The Crime of the Century” and explained at length how it had brought ruin to America.

2. **Tax increases are followed by economic growth.** Three of the four high-growth periods cited previously followed significant tax hikes. The fourth, the Truman-Eisenhower years, began with a top tax rate of 91 percent-- it couldn’t get much higher.

3. **Moderate cuts are followed by flat growth.** John F. Kennedy is generally credited with starting the tax-cut craze. He proposed it, but, as with all of his ideas, it was Lyndon Johnson who actually got it enacted. The top rate was cut from 91 percent to 77 percent, then to 70 percent, on all income more than $200,000 for a single person and more than $400,000 for a

married couple. That's where it stayed, through the Nixon, Ford, and Carter administrations. The Dow Jones average was pretty much the same when that period ended as when it began. Median personal income stayed roughly the same.

Of course, just because B follows A doesn't mean that A caused B to occur. Correlation isn't the same as causation. Obviously, all kinds of factors other than the top tax rate helped drive those growth spurts. Just one example is the huge competitive advantage the United States enjoyed for several decades following World War II, simply by virtue of the fact that it had developed a ton of industrial capacity during the war, while its major competitors had seen half of their infrastructure blown to pieces. But if B stubbornly refuses to follow A in every circumstance, then you can be pretty sure that A isn't responsible for B. A lack of correlation disproves causation.

So when Kennedy cut the top rate from 91 percent to 70 percent, that may have unleashed a lot of economic activity, but... all but the sketchiest economic thinkers agree that when George W. Bush cut it from 39.6 percent to 35 percent, he only succeeded in leaving a big hole in the budget.

Tax cuts, properly targeted, can be effective tools of public policy. The idea that cutting taxes always spurs growth, creates jobs, and leads to magic rainbows and puppies, on the other hand, is pure fantasy.