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### Mixing Economics With Politics

Can Obama's tax cut package promote a faster recovery?

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#### Why the Bush Tax Cuts Worked

Updated September 10, 2010, 11:31 AM

*Jeffrey A. Miron is a senior lecturer and the director of undergraduate studies in economics at Harvard University and a senior fellow at the Cato Institute. He blogs at jeffreymiron.com and is the author of "Libertarianism, from A to Z."*

Extending the Bush tax cuts — permanently — is a crucial step in restoring economic growth. The Bush cuts provided lower taxes on ordinary income, especially for taxpayers at the high end of the income distribution. These are some of the most energetic and productive people in society; raising tax rates would discourage their effort and entrepreneurship. High-income taxpayers also have multiple ways of avoiding high tax rates, so any revenue gain from raising rates would be modest.

The Bush cuts also lowered taxes on dividend and capital gains income; maintaining these lower rates is even more important for economic performance. Capital is mobile: when it is taxed heavily here, it flees somewhere else, meaning lower investment and employment in the United States. And because capital income taxes discourage investment or drive it overseas, they generate little if any tax revenue.

To stimulate work, saving, and investment, tax cuts to favor the taxpayers who respond most to taxes -- the higher income earners.

Opponents of the tax cuts do not seriously dispute these claims about the productivity benefits of lower rates. Instead, their real objection is that the Bush tax cuts (allegedly) favor the wealthy.

This claim is true in part; lower tax rates on the high income earners are obviously beneficial for those earners. Yet this is only part of the story. To stimulate work, saving, and investment, tax cuts have no choice but to favor the taxpayers who respond most to taxes, as well as those likely to save and invest. That means high income earners. So policy must accept some inequality in exchange for more efficiency.

And in the case of dividend and capital gains taxation, the economy can have its cake and eat it too. These taxes appears to hit wealthy capitalists, but in reality they fall partly on consumers, via higher prices, and on workers, via lower demands for their services when corporations shut down or move overseas. So low taxation of dividends and capital gains helps both low and high income taxpayers.

President Obama is opposed to extending the Bush tax cuts and is instead proposing to allow full write-off of business investment through 2011. This proposal is reasonable, but the impact is likely to be small; this policy merely allows businesses to deduct investment now rather than later as depreciation. Given currently low interest rates, this shifting of expenditure is not worth much.

A different problem with the president's approach is that it emphasizes short-run stabilization, not long-run efficiency. To prosper over the long haul, the economy needs certainty about taxes, rules, and regulations, not ever-evolving policy initiatives.

Likewise, markets want an emphasis on productivity, not on redistribution. Yet most administration policies have paid off liberal constituencies, from unions to teachers to the green lobby. It may be this tilt that explains the anemic recovery. To restore vitality to U.S. capitalism, the president needs to show real faith in that capitalism. Extending the Bush tax cuts is a good place to start.

Topics: Business, Economy, economic stimulus, taxes



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1. walterrhatt

Charleston, SC

September 8th, 2010 4:59 pm

Unfortunately, no! Jobs are created by production. Production increases as a result of new spending purchases. Government spending is a one-for-one dollar match; tax cuts can be saved, provide for delayed spending and rarely match government's dollar-for-dollar obligation to spend. When factored with time, the money reserved by the tax cuts will improve the quality of life for those paying taxes, and then only incremental; for there will be no explosion of demand for the services and skills they provide, few new jobs or wage increases in the throughput of the tax cuts. Buying a few more hamburgers doesn't mean hiring another clerk, when productivity is so severely underutilized. Tax cuts simply don't stimulate production.

The exercise is political, one of smoke and mirrors, simply with a better scent than the one Republicans are offering. It is the whiff and sound "of fury, signifying nothing."

--Walter Rhett

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2.

DominionDem

Rochester,ny

September 8th, 2010 5:40 pm

Total tax revenues paid in the U.S. as a percentage of GDP is among the lowest in the industrialized nations in the world. Only a couple countries like Mexico and Turkey have lower rates. The highest tax rates are in Northern Europe...where the quality of life is the highest and where now economic opportunity and growth is better than in the U.S. The theory that we pay too much taxes is just political rhetoric....And the level of taxes on U.S. Businesses "payed" as a percentage of GDP is also among the lowest in the industrialized world. It's time to talk about facts rather than "political speak"! Giving more money to the super rich and to Corporate America only further enriches the rich at the expense of the poor and middle class.

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3.

jeffiz

San Francisco

September 8th, 2010 5:80 pm

The right wing Republicans gave us: (1) The financial crisis which has led to massive borrowing due to Republican failure to regulate the banks even to the slightest degree, (2) Bush's War along with enormous tax cuts to the very wealthy in the face of trillions in unfunded war costs. Now this academic economist is promoting more voodoo Regonomics when it has already been proven not to work. Perhaps he needs to go back to school and learn something about the failed policies of the past. what we needed was a much larger stimulus package when the economy was faltering. Lets hope Obama has found the political will and strength to see this latest proposal through.

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4.

bradley

DC

September 8th, 2010 4:53 pm

You've got to be kidding me Mr. Miron. Allowing the tax rates on the wealthy to go back to the way they were pre-Bush would discourage entrepreneurship? I seem to remember the wealthy enjoying a heaping amount of entrepreneurship during the 90's. This is pure nonsense Mr Miron. And why should we have "real faith" in capitalism? It was unfettered, unregulated capitalism in the hands of the rich which caused this great recession in the first place. Allowing the Bush tax cuts to expire will be a good thing indeed and the rich will still be players in the economy. No more bullying please.

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5.

Robert Hurley

Philadelphia, PA

September 8th, 2010 5:00 pm

You really have to laugh at Jeffrey Miron when he says that "Bush tax cuts (allegedly) favor the wealthy. " Then say that is true only partially - Nonsense! What percentage went into speculation and high living and what percentage went into productive investment? I am not sure how you can cry about debt and at the same time advocate policies that will increase the debt in the long term

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6.

Steve Fankuchen

Oakland, CA

September 8th, 2010 5:12 pm

The best reason to heavily tax the super-wealthy is to prevent unqualified egotists from amassing fortunes large enough to buy their nomination and election. Carly Fiorina and Meg Whitman running for Senator and Governor in California is very much like William Shatner, Leonard Nimoy, and Sebastian Cabot cutting records of their singing.

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7.

Robert

Washington, DC

September 8th, 2010 5:15 pm

Listened to the speech today and even hold respectful admiration for President Obama but, the sum total of all of these proposals will equal a big fat goose egg! Practically zero! Why? All of the proposals harken back to a bygone industrial era! The real small companies the really hire the masses could care less about tax cuts. They are just a non-issue. Here we are talking about the millikons of tiny mom & pops around the country.

The government uses tax cuts when the government is broke! The only real solutions all deal with cancelling, eliminating, bankrupting, discharging, waiving, forgiving and trashing huge amounts of debt first and foremost!

The second issue would be job creation which takes serious money! Not tax credits but, the government sending checks to the millions of tiny small business owners across America in substantial amounts that may be used to fund new and expanded businesses!

Robert

Washington, DC

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8.

northh

Stamford, CT

September 8th, 2010 5:33 pm

The argument that the wealthy are the boon of our economy is currently being proved false. Profits of the S&P companies have been at record highs for the past decade, and they are stuffed with cash. Yet when this country needs their investment, they instead invest overseas or lay off employees.

What Mr. Miron fails to recognize is that his paragons of capitalism have abdicated the responsibility he implies in arguing for giving them tax advantages; that is, even with all the tax advantages of the past decade, they have kept the money and laid off US workers.

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9.

Elizabeth

Cincinnati

September 8th, 2010 5:36 pm

The template of the Bush tax cut could have been a reasonable template for future tax policy If President Bush and Congress had pass it as revenue neutral program back in 2002. Instead, Congress and President Bush used "Voodoo Math" to frame a taxcut that would last till 2010, and let Estate Tax expire for 2010 only!!! Clearly, this cannot be the basis of a permanent tax cut, and extending the Bush tax cut for two more years would only create additional uncertainty for consumers and business.

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10.

Hassan Azam

NY

September 8th, 2010 5:38 pm

The main factor that has or had distinguished the US from all other "industrialized democracies" was its vibrant middle class backed by a robust financial system put in place by FDR in the 1930s...

Sadly, the conservatives and their extreme right operatives began the campaign to dismantle what FDR built, from the SEC to social security and regulating essential industries, banking, etc, as the WW-II ended under the banner of fighting socialism/communism et al...

Come Ronald Reagan and the era of neo-cons, the US was put on a path of self-destruction as was evidenced by the collapse of the battered US financial and economic system in 2008...

The American Dream can ONLY survive, if the middle class once again becomes the dominant political and economic force, the extreme tendencies of the rich/neo-cons are checked through democratic mechanisms and that the State creates an environment to encourage and allow the poor to move towards joining the middle class by working hard and contributing to the society....

What happened during the past thirty years has been the triumph of simplistic capitalistic/materialistic/feudalistic doctrines to the detriment of a well balanced democratic civil society....

We are currently at an inflection point and the November election is a crucial test for the US electorate to get it right, correct that is, and not give into the empty slogans of the extreme conservatives/right who got the US in this big black hole in the first place.

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11.

[Anonymous BE](#)

Belgium

September 8th, 2010 5:39 pm

That this man is the director of economic studies at Harvard is about the best evidence yet of the decline of the elite in America. He writes of taxes as if they are only costs, but neglects to make any discussion of all of the benefits provided by taxes. Of course, there is deficit finance, but otherwise, and in the long run, tax cuts indicate spending cuts. Are those spending cuts beneficial or not? Miron's complete neglect of half of what must be a part of any discussion of public finance shows this to be a wholly inadequate presentation of the issues involved.

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12.

Jean

Illinois

September 8th, 2010 5:42 pm

The right wing as you like to call it is not responsible for the financial crisis! Poor government oversight is! The SEC and several other agencies had access but negligence caused the final straw on the camel's back! Making the government larger creates more negligence since controls are not used now. Spending tax payers' dollars on programs to create jobs that only commit to a select few does not create jobs. Dollar for dollar, bologna! Democratic spending on social programs does not create an economic environment favorable.

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13.

[rctd](#)

FL

September 8th, 2010 5:48 pm

Listening to Obama today was extremely difficult. It was apparent that he cares more about his political survival than the good of the country. I say this because he spent most of his time attacking those that he doesn't agree with and that don't agree with him.

Since taking office the country besides slipping into a very deep economic hole has become even more divided. Much of that division was promoted by Obama and today marked yet another occasion for the them versus us speech.

As I watched I kept thinking do I really want to be part of the Obama country? A place that is highlighted by class warfare and that is led by a demagogue with little ability or shame; and the answer is no.

You on the left can have him and I guess we are going to have to figure out how to split the land because I and many others have had enough of this nonsense.

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14.

Steve

Philly

September 8th, 2010 5:50 pm

Can there be any better example of the right wing's complete disregard of the facts in any debate?

- 1) "High-income taxpayers also have multiple ways of avoiding high tax rates, so any revenue gain from raising rates would be modest." Very modest. Only \$700 billion over 10 years.
- 2) "Opponents of the tax cuts do not seriously dispute these claims about the productivity benefits of lower rates." True, except for the fact that the opponents DO dispute this, all the time. The reality is that lower taxes for the wealthy have minimal stimulatory benefits. The multiplier is far higher for tax decreases to the lower income groups, which means decreases in the payroll tax. Which the right wingers like to ignore when they say workers at the bottom of the income ladder pay no INCOME taxes.
- 3) "because capital income taxes discourage investment or drive it overseas, they generate little if any tax revenue." Only tens of billions of dollars a year.

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15.

[Brian Sussman](#)

New Rochelle, NY

September 8th, 2010 5:59 pm

The only way to seed the economy back to health is for business or government to provide income for the unemployed and underemployed, for families with young children, and for adults 62 and older.

Maintaining or creating tax cuts for the wealthy does not benefit those people most in need of money to spend, and only allows the wealthy to save their tax cut-derived money or to travel and spend it out of the country.

What is needed is to completely eliminate Income and Social Security taxes for families with incomes under \$30,000, while increasing Income and Social Security taxes for families with incomes over \$300,000. Also needed is to tax all income no matter who derived, including Capital Gains, Interest, Dividends, etc., as being the equivalent of Wages. The Social Security Tax Cap should be completely eliminated, while Senior Citizens with incomes of \$300,000 or greater should be denied all Social Security Benefits. Family Incomes over \$300,000 should be increased, and graduated back up to the 1980 levels.

Social Security benefits should be fully provided for all generations at the age of 65, if not lowered to 62. It is important to encourage Babyboomers to retire sooner, so as to provide greater employment opportunities for younger generations. This is exactly the same reasoning for the creation of the Social Security in the 1930's, to reduce the number of senior citizens on the work force, while creating more employment opportunities for younger adults.

But Tax Cuts will do nothing to improve our economy because they only benefit those people who already have income, and least need government assistance, while doing nothing for those families who most need additional income and who certainly will spend any additional money on necessities, and thereby seed out local and national economies.

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16.

[Banty](#)

Upstate New York

September 8th, 2010 6:00 pm

"These are some of the most energetic and productive people in society; raising tax rates would discourage their effort and entrepreneurship."

Oh here we go again - we gotta let the John Galts of our society keep their money - they'll turn right around and spend it and invent with it and build with it and hire with it because their very fortunes are testament to their virtue and brilliance.

Not. Or at the least, null.

Very rich people by and large invest in - investment instruments.

It's hard to believe this was written on the near side of September 2008.

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17.

[Don Duval](#)

North Carolina

September 8th, 2010 6:34 pm

"The Bush cuts provided lower taxes on ordinary income, especially for taxpayers at the high end of the income distribution. These are some of the most energetic and productive people in society; raising tax rates would discourage their effort and entrepreneurship."

Mr. Miron offers no evidence whatsoever to support any of those assertions--it is simply part of the wealthy right's mythology that they are the geese that lay all of the golden eggs--that if they were just given more gold, they would produce more wealth.

The idea that some great economic harm would be generated if these fat cats were forced to pay the same rates they somehow managed to pay in the 1990's is fear-mongering fabulism of the first water.

The economy/prosperity that those tax cuts produced was dismal, at best--even in the best of times.

Job growth was pathetic--growing at a rate that was the lowest of any expansion since World War II.

The Federal budget--which was running record surpluses prior to Bush entering the White House and giving Republicans total control of the budget and the government--fell into the red--and has been there ever since--a growing sea of red ink that the Republicans, having spilled it everywhere, hypocritically decry it--until the issue are preserving these tax cuts for the plutocrats.

Wages--for most Americans--were stagnant throughout the decade--only the top 5% saw their wages rise.

There is simply no economic justification for keeping those tax cuts--and Mr. Miron--beyond offering platitudes that reality has proven false--offers none.

The Cato Institute is a propaganda operation funded and operated for the financial interest of extremely wealthy and far right families.

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18.

Shelly

Denver

September 8th, 2010 6:21 pm

Let me understand this.....we want everything to be hunky dorey within 2 years, after 8 years of destruction under the previous administration!!!! Get real folks!!!!

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19.

Frank

Raleigh, NC

September 8th, 2010 6:13 pm

Miron's statements for permanently extending the tax cuts to the wealthiest are absurd.

He states; "The Bush cuts provided lower taxes on ordinary income, especially for taxpayers at the high end of the income distribution. These are some of the most energetic and productive people in society; raising tax rates would discourage their effort and entrepreneurship. High-income taxpayers also have multiple ways of avoiding high tax rates, so any revenue gain from raising rates would be modest."

If these folks are so energetic and productive, hence successful as the author implies, they should pay for the privilege of living in America and having been born with such talent; the rest of we "normal, simple" persons, will just have to get by. It's the old republican superiority thing; we lazy, plain folks just don't deserve any rewards; it's how hard you work and produce. We produce all the investment money he and his friends use to make fortunes and the labor to keep society running. These alleged supermen just use all these resources to make their useless millions as the wall Street crazies did recently. The constitution says nothing about the details of taxation, nor of the economic system we need to use. Those born into or who develop skills and get an education to use successfully---hooray for them--they can pay for the system that let them do it.

And as far as they can find tax shelters to avoid paying the tax--that's a no brainer--shut down the tax shelters. Let's get smart and use some common sense here. This fellow is at Harvard!! Look at the ridiculous, meaningless ideas he proposes--old, old republican nonsense.

Obama is coming back. He fools us all the time. He works behind the scenes trying to get the Israelis and Palestinians together, passes landmark legislation on health care and financial reform and smartly ignores the distractions that are thrown his way to get him off track (mosque in NY, his birth place nonsense, his Islam religion nonsense) and goes about the work he should be doing.

He's now coming back and bashing John Boehner, a real devious, anit-American, greedy nut-case if we've ever seen one. Let's support our President who is one of the best we have had in many years.

After a busy year for the president, he has decided to start communicating again. He has planned it this way all along. Best of luck to him.

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20.

M

Boston

September 8th, 2010 7:31 pm

Not that I'll get an ounce of sympathy in this climate, but raising taxes just because a family makes over 250 K is not exactly just taxing "millionaires and billionaires." With my wife and I both working full time in Boston, we make will 265K. Cost of living here, plus educational debt, gives us the buying power of a family making half that in the midwest. We are in our forties and have just started to generate this earning power after years of work--we won't be millionaires any time soon.

As our taxes go up, we will search for ways to save more and spend less. We certainly don't want for much and we're very fortunate and happy, but it definitely feels like financial no-man's land, and more than a little surreal to be labeled "rich" by cash-soaked Washington Democrats.

Letting the tax cuts expire might be the right thing to do, but for most of the east and west coasts, a lot of hard working double income families are getting lumped in with the fat cats.

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