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Head to Head: Should Congress return to pre-2001 tax levels for high-income earners?

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THE ISSUE: The 2001 and 2003 tax cuts, also known as the "Bush tax cuts," expire on the last day of 2010. If Congress takes no action, tax rates will revert to pre-2001 levels. President Barack Obama has proposed allowing the Bush tax cuts to expire for the top 5 percent of families earning more than $250,000 a year.

Should Congress return to pre-2001 tax levels for high-income earners?

Pia Lopez: Yes

Congress should return the tax system to where it was in the 1980s and 1990s. The sky didn't fall then, nor will it now.

In 2003, 450 economists signed a statement opposing the 2001 and 2003 tax cuts. They accurately predicted then that the cuts would "worsen the long-term budget outlook, adding to the nation's projected chronic deficits." Further, they would "reduce the capacity of the government to finance Social Security and Medicare benefits as well as investments in schools, health, infrastructure and basic research."

It is long past time to move beyond myth to face that reality.

Myth 1: Tax cuts pay for themselves.

Even the most conservative economists reject that one.

Various sources acknowledge that the 2001 and 2003 tax cuts added about $1.7 trillion to deficits between 2001 and 2008. Financed by borrowing, they also added $200 billion in interest payments on the national debt from 2001 through 2008.

Myth 2: Tax cuts force lower government spending.

Economists William Niskanen and Peter Van Doren of the Cato Institute dispelled this "starve the beast" fallacy in 2004. They found that from 1981 to 2000, for each 1 percentage point decline in tax revenues, federal spending increased by about one-half percent of gross domestic product. They concluded that government spending grows because tax cuts make government look cheaper than it actually is, so people want more of it. Ironically, a tax increase may actually do a better job of reducing government because it forces people to pay for government services.

Myth 3: Letting the tax cuts expire will hurt small businesses.

According to the Joint Committee on Taxation, about 750,000 personal tax returns report business income and pay the top marginal rates. But not all are small businesses. They are authors, movie stars, athletes, major law partnerships and hedge fund operators like billionaire George Soros. Nearly 20,000 had receipts of more than $50 million.

The reality is that current tax rates at the top are low historically. From 1951 through 1963, the top marginal rate was 91 percent for income over $400,000. From 1981 through 1986, it was 50 percent for income over $175,250. From 1993 to 2001, it was 39.6 percent for income over $297,350.

Returning the top marginal rate to 39.6 percent for family income over $250,000 (from the current 35 percent) will not add a negative jolt to the economy, but it will provide a positive jolt to help reduce deficits.

Pia Lopez is an editorial writer at The Bee.

Ben Boychuk: No

Cutting the deficit and reducing debt is vital, but raising taxes at a time of economic sluggishness and uncertainty is folly.

And couching the debate in terms of halting "giveaways" to the rich while "protecting" the middle class – as the Obama administration is attempting to do – isn't helpful at all. In fact, it misses the point entirely.

Pia points to a few myths about tax cutting, all of which contain kernels of truth. Tax cuts can and do spur gross domestic product and revenue growth. But tax cuts without spending cuts will certainly lead to higher deficits.

Obviously, you can't starve the beast if the Chinese give you a credit card with a multitrillion-dollar limit to keep the beast fed and purring. That says more about the irresponsibility of a spendthrift Congress than the economic wisdom of tax cuts.

Of course, supporters of the coming Obama tax hikes have a few cherished myths of their own. The most pernicious of these myths is that personal income is merely tax money the government graciously decides to let us keep. We're lucky the state lets us keep anything at all, and we should be plenty grateful that the bad old days of 91 percent marginal rates are behind us. Nonsense!

Hard to believe, but even without confiscatory Eisenhower-era tax rates, the rich have managed to pay their "fair share" and then some. The top 1 percent of earners accounted for about 19 percent of income and paid 38 percent of all taxes in 2008, according to the Tax Foundation. And tax receipts were actually down that year, thanks to the recession.

But it may be surprising to learn that under the Obama administration's proposal, the top 1 percent of earners would only pay about 31 percent of taxes under the proposed tax rate. So if you want to really soak the rich, cut their tax rates. But if you want to cut the deficit, expand the tax base by growing the economy.

Fact is, without congressional intervention, taxes will go up on Jan. 1 for *everybody,* not just Americans earning more than $250,000 a year. Ideally, the Bush tax cuts should be made permanent. But in the spirit of compromise, extending the cuts for another few years to let the economy strengthen would make good sense, too.

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