The Growing Desperation Of The Don't-Raise-Taxes-On-The-Rich Crowd

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The much-vaunted Republican pledge not to raise any taxes is crumbling. Tuesday 34 Senate Republicans voted to end the special tax breaks for ethanol.

According to no-tax-increase purists like Grover Norquist, this is tantamount to a tax increase.

The truth is, Republicans are divided between those who want to bring down the budget deficit and those who want to shrink government. Ending a special tax subsidy helps reduce the deficit but doesn't necessarily shrink government. That's why Norquist and his followers have insisted any such tax increase – including even the closing of tax loopholes – be directly linked to a corresponding tax cut.

In order to save face on Tuesday's vote, Norquist says renegade Republicans will still be considered to have adhered to the pledge if they vote in favor of an amendment offered by Senator Jim DeMint to eliminate the estate tax. Talk about grasping at straws. DeMint's amendment hasn't even been up for a vote.

In short, the no-tax pledge is evaporating in the fresh air of reality.

What are anti-tax Republicans to do?

For one, they can continue to distort the arguments of those who believe corporations and the rich should pay more taxes.

For example, in the lead op-ed piece in today's *Wall Street Journal*, Cato Institute fellow Alan Reynolds claims a higher marginal tax on the super rich will bring in less revenue.

Reynolds uses my tax proposal as a red herring. "Memo to Robert Reich," he declares, "The income tax brought in less revenue when the highest rate was 70 percent to 91 percent [between 1950 and 1980] than it did when the highest rate was 28 percent."

Reynolds bends the facts to make his case. The most important variable explaining the rise and fall of tax revenues as percent of GDP has been the business cycle, not the effective tax rate. In periods when the economy is growing briskly, tax revenues have risen as a percent of GDP, regardless of effective rates; in downturns, revenues have fallen.

Reynolds also distorts my proposal, implying that the bracket on which I call for a 70 percent tax is the same as in today's tax code. Wrong. My proposed 70 percent rate would apply only to incomes over $15 million. $15 million, Alan!

Under my proposal, incomes between $5 million and $15 million would be subjected to a 60 percent rate, and incomes between $500,000 and $5 million to a 50 percent rate.

Importantly, my proposal calls for a substantial rate reduction for families with incomes under $100,000. (Conveniently, Reynolds fails to mention this.)

Reynolds entirely ignores my central argument, which is that rather than depress economic growth, higher taxes on the rich correlate with higher growth. During almost three decades spanning 1951 to 1980, when the top rate was between 70 percent and 91 percent, average annual growth in the American economy was 3.7 percent.

Between 1983 and the start of the Great Recession, when the top rate ranged between 35 percent and 39 percent, average growth was 3 percent.

Since the early 1980s, a larger and larger share of total income has gone to the top (the richest 1 percent of Americans got 10 percent of total income in 1980, and get over 20 percent now). That's left the vast middle class with insufficient purchasing power to boost the economy – without going deep into debt. Lower tax rates on the rich — including lower capital gains rates — have exacerbated this regressive trend.

Finally, having misread the facts, distorted my proposal, and ignoring my argument, Reynolds utterly fails to rebut my conclusion that raising middle class purchasing power by lowering their tax rates while raising the rates at the top will help spur growth, to the benefit of all. Top earners will do better with a smaller share of a more rapidly- growing economy a larger share of a slower-growing one.

If I were a cynic, I'd say the Republican right is showing signs of desperation.