THE DAILY BEAST

The Democrats' Big Tax Lie

President Obama keeps insisting that the rich haven't had it this good in half a century. Michael Medved says the Dems are fudging the numbers to justify their soak-the-wealthy approach.

by Michael Medved (/contributors/michael-medved.html) | July 28, 2011 1:5 PM EDT

You've probably heard this line dozens of times in the seemingly endless debate over deficits and taxation, and chances are you'll hear it many times more during the campaign of 2012, regardless of the final resolution of the debt ceiling crisis.

Don't be fooled.

Neither of the dueling plans currently on the table (one from Speaker of the House John Boehner, the other from Senate Majority Leader Harry Reid) contain tax increases of any sort but President Obama remains firmly committed to raising the rates on top earners when the latest extension of the Bush tax cuts expires at the end of next year.

The Democratic line about "the lowest rate in 50 years" effectively reinforces two important liberal themes: first, that the rich don't pay their fair share to support the operations of government, and second, that hiking rates on under-taxed wealthy people offers a painless, eminently fair way to increase revenue and reduce the deficit.

The trouble with this rhetorical approach is that it relies on an obvious and embarrassing falsehood: far from paying the "lowest rate in 50 years," top earners actually paid at the current rate *or significantly lower* for most of the time in the last quarter century.

Today, the most economically productive American couples pay a top rate of 35 percent on every dollar they earn above $379,150. In 1988-90, following Ronald Reagan's triumphal second term tax reform, big incomes paid at the highest rate of 28 percent—a big difference from today's burden. In 1991-92, following the politically costly tax increases of President George H. W. Bush, taxes on the highest incomes went up to 31 percent—still considerably lower than today. In 1993, Bill Clinton pushed tax hikes through a heavily Democratic Congress (with a margin of just one vote in the House) and for the next nine years the top marginal rate soared to 39.6 percent. The second president Bush, welcomed to office with a significant budget surplus, sought to lower rates across the board, and since 2003 Americans in the most fortunate tax bracket have paid at the 35 percent level—slightly lower than under President Clinton, but notably higher than Reagan's preferred rate.

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> "Why should the rich object to paying more in taxes when they're right now paying taxes at the lowest rate in fifty years?"

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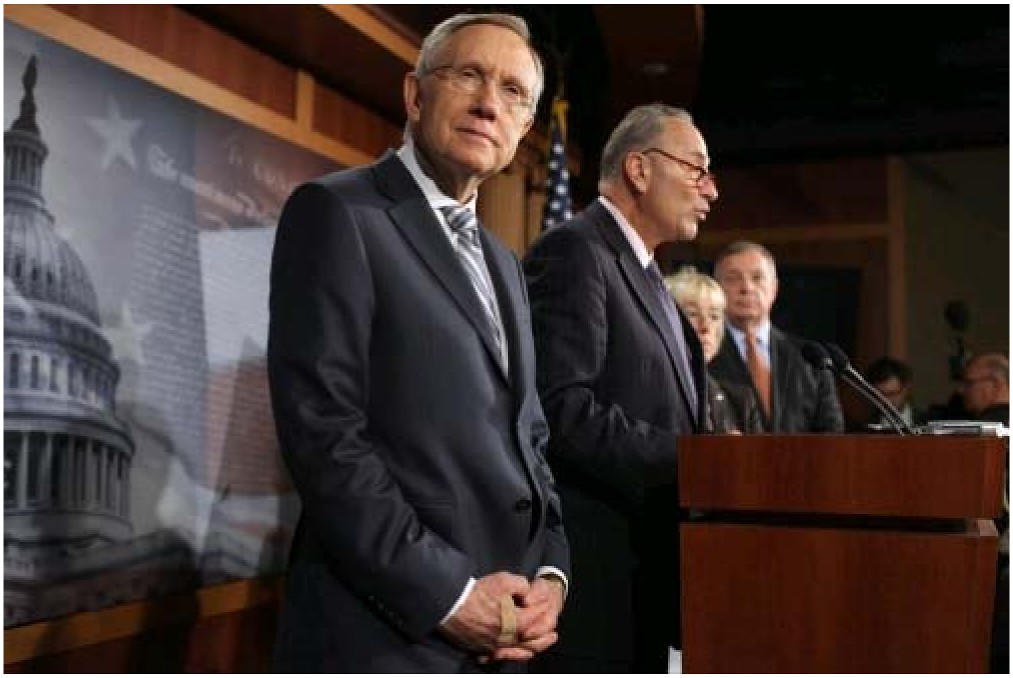

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On what possible basis, then, do Democrats repeatedly refer to “the lowest rates in 50 years”?

They cite figures showing the federal government taking in less revenue today as a percentage of Gross Domestic Product than the long-standing postwar average. In the first two years of Barack Obama’s presidency, Washington drew total funds amounting to just 14.9 percent of the economy, compared to a remarkably consistent 17 to 18 percent during the preceding 50 years.

But this reduction in revenue stemmed directly from the economic collapse of September, 2008, and not from the controversial Bush tax cuts. As a matter of fact, during the Bush years with the lower top tax rate (35 percent), Uncle Sam collected an average of 17.1 percent from the economy in federal taxes—very much in line with historical figures going all the way back to 1951. The last year of the Bush presidency (2008) produced a healthy 17.48 percent in revenue, before the suffering of the Great Recession pushed much of the middle class into lower tax rates and drove millions of hard hit Americans off the tax rolls altogether. Meanwhile, the Obama administration’s own figures project that revenue for the federal government will be almost back to normal in 2012 (16.62 percent of GDP)—even without the tax rate increase the president wants to impose the following year.

Even a cursory glance at the historical records make it clear the amount of revenue flowing to the federal government bears little connection to the tax rates applied to the wealthiest Americans. In 1951, for instance, top earning families (those who earned more than $400,000) paid a confiscatory top marginal rate of 91 percent, but the government collected just 16.2 percent of the GDP in revenue. More than 30 years later, during the brief three year interlude when taxpayers enjoyed the low Reagan top rate of 28 percent , the feds took in vastly more total revenue—an average of 17.9 percent.

In other words, contrary to the simplistic assumption that raising tax rates always increases revenues, a rate of 91 percent brought in less to the Treasury by every standard than a 28 percent rate. Alan Reynolds, a veteran economist with the Cato Institute (and a frequent guest on my radio show) isolates the figures for individual income tax collections (excluding corporate levies, capital gains tax, estate tax and other sources of revenue) and shows that higher top rates historically bring somewhat *lower*–not higher -tax collections.

Between 1952 and 1979, the top tax rate ranged from 70 percent all the way to 92 percent, but revenues from personal income tax amounted to only 7.8 percent. From 1988 through 1990, with the highest individual rate 28 percent, taxpayers actually provided more funds, not less—8.1 percent of GDP. Reynolds concludes: “The trendy talking point of blaming projected deficits on ‘tax cuts for the rich’ is flatly absurd. Both individual incomes taxes and overall federal taxes have long been a surprisingly constant percentage of GDP—8 percent and 18 percent, respectively—regardless of top tax rates on salaries, small business and investors. It follows that the only reliable way to raise real federal revenues over time is to raise real GDP.”

The hard facts (readily available from the Internal Revenue Service) not only expose the false Democratic claims about “the lowest tax rates in 50 years” but also give the lie to any suggestion that wealthy taxpayers contribute less than their fair share. The most recent numbers (updated in October, 2010) show that the top 1 percent of tax returns covered an amazing 38 percent of all income taxes—nearly doubling the share of the total income they earned (20 percent). The top 5 percent of taxpayers (earning above $159,000) earned 35 percent of all income, but paid the big majority of all income taxes—59 percent.

On the other side of the economic divide, the bottom 50 percent of all taxpayers (who filed nearly 70 million returns) covered only 2.7 percent of the taxes, though they earned 12.8 percent of the nation’s total adjusted gross income. The bottom 50 percent of filers paid taxes at an average rate of just 2.59 percent, but the top 5 percent paid at a rate more than seven times higher: 20.7 percent.

No wonder that the OECD (the Organization for Economic Cooperation and Development, representing the world’s 34 most prosperous western and Asian nations) reported that the United States tax system counted among the most progressive in the world—relying more heavily on the wealthiest taxpayers and applying lighter obligations on the poor and middle class.

President Obama hopes to gain political traction by regularly attacking “millionaires and billionaires” who “contribute nothing” to solving our debt crisis, but his rhetoric ignores the fact that prosperous taxpayers generally kick in more than their share of federal revenue. Democratic propagandists may score cheap points by deriding “hedge fund managers who ride around in their private jets” but it’s simply not true that those people pay “the lowest tax rates in 50 years” (or even in 20 years), or that raising their rates would play a meaningful role in solving our fiscal crisis.

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