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Soaking the Rich Won't Grow the Economy

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In 2007, before the housing and financial crises, the top 1 percent of taxpayers paid 39.5 percent of individual income taxes, according to the CBO, plus 57 percent of the corporate tax, 4.7 percent of federal excise taxes, and 4.1 percent of payroll taxes. Combining those taxes, the top 1 percent paid a record 26.5 percent of all federal taxes combined from 2003 to 2007—up from 21.8 percent when Clinton was president and 13.8 percent from 1979 to 1982 before the Reagan tax cuts took effect. Which sounds like the fairer share?

We tried soaking the rich in the past, but the resulting revenue loss was more than we possibly could afford today. Individual income tax rates of 20-91 percent under Eisenhower brought in only 7.7 percent of GDP. Lower tax rates of 14-70 percent from 1964 to 1981, thanks to President Kennedy, brought in 8 percent of GDP. A top tax of 28 percent from 1988 to 1990 brought in 8.1 percent of GDP. By contrast, raising the capital gains tax to 28 percent from 1987 to 1996 thwarted stock sales and clearly cost the Treasury a bundle. What was fairer about high tax rates that were not paid?

The trouble with depending on so few people for so much government is that it doesn't work when the party stops. We're running short of rich people to tax.

From 2007 to 2009, the IRS reports that the number of incomes above $1 million (including many businesses) fell by nearly 40 percent. As a result, incomes above $1 million accounted for "only" 20.5 percent of individual income tax receipts in 2009, down from 27.8 percent in 2007.

A shortage of prosperity always creates a shortage of prosperous taxpayers. That is not a problem that can be fixed by taxing the few surviving millionaires into oblivion.