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## Paying The Rx Piper Obama Would Soak The Rich

Posted 2010-04-02

Forget for a moment, if you can, all the legislative gimcrackery involved in the recent passage of health-care "reform" — the double counting of Medicare cuts, the 10-6 legerdemain (10 years of revenue "enhancements" funding six years of benefits), and the unfunded "doc fix." Remember instead how President Obama says he is going to pay for so much of this grand new entitlement scheme.

If "taxation" escapes your lips, you're correct. If the next three words out of your mouth are "of the rich," you're right again. The president expects to extract about \$1.2 trillion over 10 years from the monetary hide of that small group of taxpayers who already "contribute" to the public fisc more than half of all taxes paid.

Let's see what Mr. Obama has in store. Well, for starters, a 3.8 percent "Medicare tax" on interest and dividends, capital gains and rental income of couples earning more than \$250,000 and individuals taking home more than \$200,000. It's also the president's intent to hit these folks again by hiking the top two income tax rates — from 36 percent to 39.6 percent, and from 33 percent to 35 percent. Finally, the overall capital gains rate will jump from 15 percent to 20 percent.

But here's the rub: If history serves as any guide, so notes Alan Reynolds of the Cato Institute, such "strategy" will not bear financial fruit. It never has, Mr. Reynolds observed Tuesday in The Wall Street Journal. And it never will.

It's almost an iron law of tax economics: When rates rise, government revenues fall. Conversely, when rates decrease, revenues increase. For heightened insight, merely gaze through one small window in the recent history of taxation — the years 1986-92. In '86, the top rate stood at 50 percent. The government's "take": 7.9 percent of GDP. By the years 1988-90, the top rate had fallen to 28 percent — and the government's tax gleanings increased to 8.3 percent of GDP in 1989. Then, when the maximum rate rose to 31 percent in '91, the government's receipts the following year fell to 7.6 percent of GDP.

Hence, Mr. Reynolds' simple conclusion: "Punitive tax rates on high-income individuals do not increase revenue." Why? Capital become less fluid as fewer capital gains are realized, and people shelter their incomes from taxation by, for example, eschewing dividend-paying stocks in favor of investment in tax-free municipal bonds. Even more fundamentally, the lower the tax rates, the greater the investment and capital activity.

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