

REALITY TRUMPS FANTASY – THE ANSWER ISN'T JUST “TAX THE RICH”!

Stephen L. Bakke – **April 15**, 2011

Our President, at his “butt covering best,” presented his economic solution earlier this week:

As a country that values fairness, wealthier individuals have traditionally borne a greater share of this burden than the middle class or those less fortunate. Everybody pays, but the wealthier have borne a little more America's finances were in great shape by the year 2000. We went from deficit to surplus. America was actually on track to becoming completely debt-free, and we were prepared for the retirement of the baby boomers. But after the Democrats and Republicans committed to fiscal discipline during the 1990s, we lost our way in the decade that followed.”

(That's such B.S.!)

Mallard Fillmore by Bruce Tinsley



So began the ultra-partisan, left pandering, Obama administration charge to the supposedly important debate over taxes, spending and debt limits. In the words of Mona Charen:

This “it all started with George W. Bush” trope is more than tiresome – it's shallow, pandering, and dishonest.

The Wall Street Journal reacted by pointing out the inconsistencies readily apparent when comparing Obama's appointment of his own budget/deficit commission last year, ignoring their suggestions in his 2012 budget proposal in February, and the knee-jerk reaction presented in his “let's save the economy” speech this week:

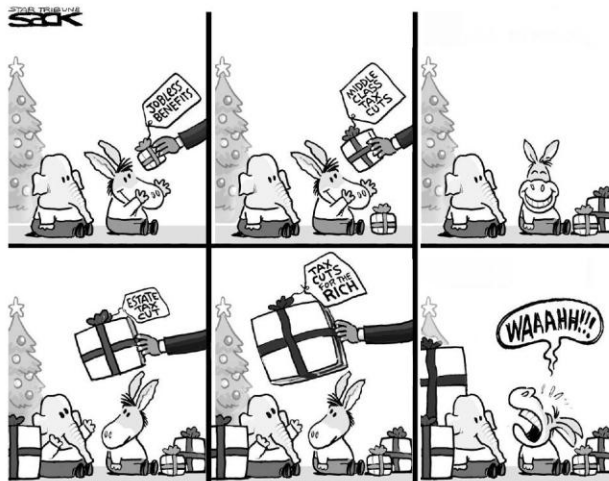
The immediate political goal was to inoculate the White House from criticism that it is not serious about the fiscal crisis, after ignoring its own deficit commission last year and tossing of a \$3.73 trillion budget in February that increased spending amid a record deficit of \$1.65 trillion. Mr. Obama was chased to George Washington

University [last Wednesday] because Mr. Ryan and Republicans outflanked him on fiscal discipline and are now setting the national political agenda.

I agree with Ms. Charen and the Wall Street Journal! OH! DO I AGREE!!

I'm Starting to Repeat Myself, and It's Not Just a Sign of Old Age!

This apparent slip into senility is merely a quest to remind myself and others about the sad state of affairs and the even sadder sojourn into fantasy being made by so many of our progressive/liberal politicians – **i.e. that the answer to balancing the budget and reducing the national debt can simply be found with the richest of our citizens.** I wrote about this in my much earlier report on “Rich, Poor, and More.” I wrote it in my 2010 report “Class Warfare Can Get Taxing.” I wrote it in my recent commentary on Obama’s budget and related matters. But the liberal politicians and the media keep POUNDING AND POUNDING AND POUNDING on the point that the republicans are asking only the middle class to bear the burdens of solving the financial crisis.



(Sigh!) If Only It Were True!

I am all for an easy answer if one were available. THERE ISN'T ONE! The liberals seem to implore the rich to solve the problem simply by paying more taxes. The strong implication is that unless the rich step up to the plate and individually solve the crisis through paying more taxes, they are confirming the fact that a culture of greed prevails in the Republican Party and merely perpetuates itself unless the Democrats step in to make things “fair.” (All together now): **IF ONLY IT WERE THAT EASY!**

The Rich Pay Taxes

I understand the need to change the structure of our tax system, but here are some of the reasons why it's hard to know the best way to do it.

Most of those targeted by the democrats fit the category that I describe as “moderately affluent.” Only a small minority of the “rich” really are the “super rich” that most people have in mind when the democrats are debating in Congress. In fact, according to a recent report I found, just a few hundred thousand taxpayers earn more than \$1 million a year. But whatever the number, the democrats are trying to paint all of the upper middle class and the “moderately affluent”, “wicked, evil, mean, bad and nasty.” This is truly class warfare and a war on profits.

Consider:

- The top 1% of income earners account for 38% of federal income tax receipts.
- The top 5 % pay almost 60% of federal income taxes.
- **The top 50% pay almost all federal income taxes.**
- Almost 50% of Americans pay no federal income tax. And be assured that this does not reflect just a bunch of rich people avoiding taxes. This is due to the lower income filers falling below the level of income required to pay tax.
- It seems obvious to me that a large percent of the middle class pay no taxes.

Focus on this graphic which visually portrays the highlighted category above – the red area is the portion of federal taxes paid by “The Top 50%” of income earners – the blue the Bottom 50%:

Top 50% of income earners pay ALMOST ALL of the total federal taxes collected

Obviously, Our Taxes ARE Progressive

Thomas Sowell points out:

Our corporate tax rates are higher than in many other countries. That may have something to do with the fact that many American corporations (including General Electric) expand their operations in many other countries, providing jobs – and tax revenues – in those other countries.

But high-tax ideologues don't see it that way. They would be horrified at the idea that we ought to lower our corporate tax rates, just so that more American businesses would do more of their business at home, providing more Americans with much-needed jobs.

To ideologues, that is just a cop-out from the class-warfare battle. It is far more important to them to score their political points against "the rich" or "Wall Street" than that a few million more Americans out of work would be able to find jobs.

The tax rates are indeed progressive! If “almost 60%” of the tax receipts is too low for the top 5% of earners to pay, then what portion should they pay? If “almost all” of the taxes are paid by the top 50% of earners, and if that’s not enough, what would be enough? Perhaps they should pay “more than all” of the taxes. Do you see how foolish it becomes if one carries a naïve idea to its absurd conclusion? I’ll concede a progressive tax rate, but shouldn’t all Americans pay something – even if it’s only “a few bucks”?

I would wager that most citizens aren't familiar with these numbers. And the proportions are not the result of a bunch of "fat-cats" getting away with paying no taxes. No – for the most part our taxes are progressive. How much more progressive do we want the system to be? Is there a chance that at some point we could start to reduce available productive capital and investment? YES THERE IS! That's when we start sucking the "calcium out of the bones" of our system.

Please Know and Understand This: The Liberal's Numbers Don't Work!

First, recognize that the proposed Republican plan for fiscal reform is just that – a proposal, a place to begin negotiations. It does do many things, and raising tax RATES is NOT one of them. But it does appear to raise more taxes, even initially, by BROADENING THE TAX BASE. They do want to reform the tax system. Once significant spending cuts are achieved, I'm sure that some marginal increase in rates will be negotiated.

OK, so the "most fortunate among us" pay a lot of taxes - almost the entire current tax base. Why not just expand the base – i.e. let the wealthiest still pay almost all of the taxes, but make the total tax collections much larger! Won't that work? No! Read on!

Many of us have seen the statistical analysis which shows the absurdity of the idea that the "rich" are the real solution – even if significantly increasing the total tax base. If we took ALL of the annual income of taxpayers earning over \$250,000, IT WOULDN'T EVEN COME CLOSE TO SOLVING THE PROBLEM OF OUR NATIONAL DEBT! And what would happen to the investment/capital base in this country? That scenario just wouldn't work!!

From Economist/Educator Walter Williams – and Bill Whittle of "Real Clear Politics":

All told, households earning \$250,000 and above account for 25 percent, or \$1.97 trillion, of the nearly \$8 trillion of total household income. If Congress imposed a 100 percent tax, taking all earnings above \$250,000 per year, it would yield the princely sum of \$1.4 trillion. That would keep the government running for 141 days, but there's a problem because there are 224 more days left in the year.

How about corporate profits to fill the gap? Fortune 500 companies earn nearly \$400 billion in profits. Since leftists think profits are little less than theft and greed, Congress might confiscate these ill-gotten gains so that they can be returned to their rightful owners. Taking corporate profits would keep the government running for another 40 days, but that along with confiscating all income above \$250,000 would only get us to the end of June. Congress must search elsewhere.

According to Forbes 400, America has 400 billionaires with a combined net worth of \$1.3 trillion. Congress could confiscate their stocks and bonds, and force them to sell their businesses, yachts, airplanes, mansions and jewelry. The problem is that after fleecing the rich of their income and net worth, and the Fortune 500 corporations of their profits, it would only get us to mid-August.

And we still wouldn't have put a dent in the national debt!

Lower Tax Rates Usually Produce More Jobs, More Profits, and More Tax Revenue

I've said it before, and I'll say it again! Reality trumps fantasy! Need money? Just go after the rich – that'll get it done. I don't care what you wish were true, IT DOESN'T WORK THAT WAY! We must keep in mind that rich people didn't become rich by being stupid.

Whether we like it or not, increasing the tax rates for the highest incomes isn't an ideal way to increase revenue. Yes! The richest CAN afford to pay more. BUT THEY AREN'T STUPID! They move their money from taxable investments to tax shelters and non-taxable investments. So what? Those funds are put into conservative capital preservation assets that DON'T CREATE GROWTH AND JOBS!

And how about capital gains taxes? The vast majority of middle income persons holds equity securities either directly or indirectly and pays capital gains taxes. It can be easily demonstrated that taxes on capital formation (capital gains taxes) reduces capital formation, and aggressive taxes on income reduces the incentive to work and invest – the cornerstones of our type of economy.

Let me demonstrate this based on personal experience. A number of years ago I was a founder of a new company. In order to achieve our operating and growth plans, we needed to attract significant capital from outsiders. While this was a small company, we still needed several million dollars in investor capital (cash, not loans) in order to attract the necessary bank lines of credit and achieve our growth and profit goals. Who were those investors? Wealthy individuals who invest in growth opportunities. Our company planned to make profits. And we knew, eventually, the company would be sold – for a profit. All of these profits brought with them income tax implications and considerations. If the tax rates had been “sky high,” or if it were not reasonably certain how much future rates would go up, I WOULD NOT HAVE RAISED THAT MONEY, and a “bunch” of jobs would not have been created.

If these “rich folks” get a tax break, what do they do with it? Here's what the liberals think:



No they are not burying it – they are investing it! Our rich are “savers, investors, and job creators.” Historical statistics, along with human nature, clearly indicate that the result of tax increases, particularly at the upper income levels, is usually a reduction in total tax revenue.

Lower tax rates for the wealthy creates an atmosphere of aggressive investment in growth opportunities which does create jobs and profits and more tax revenue than is given up in the rate reduction. Call it greed if you like, and SOME MAY NOT LIKE IT, BUT THIS IS A DEMONSTRABLE FACT!

What Really Happened With George W's Tax Policies

George W. Bush successfully achieved a tax rate reduction bill early in his presidency. All taxpayers benefited – with lower incomes experiencing proportionately more relief than the rich (contrary to popular liberal opinion). Bush's program worked! And tax revenues increased substantially in spite of the rate reduction.

As regards total tax revenue, according to the Congressional Budget Office, the share of taxes paid by the top 1% increased from 37.4% in 2000 to 39.4% in 2005. The top 5% increased even more. Therefore, despite the tax reductions of 2001 and 2003, the rich saw their share of taxes increase faster than their share of income. Why? - Partly because cuts were more beneficial (proportionately) for low and middle income households, and because loopholes were closed.

And in 2003, the capital gains rate was cut from 20% to 15%. After the rate cuts, more Americans were attracted to investments subject to capital gains and were willing to sell and declare such gains. Declared capital gains taxes doubled after the rates were reduced. And dividend income increased at least 50% after the dividend tax rate was cut to 15% from 40%. ONCE AGAIN, IT SEEMS THAT INCREASED TAXES ON CAPITAL FORMATION REDUCES CAPITAL INVESTMENT AND REDUCES TAX RECEIPTS – and vice versa!

Several years of fiscal growth, and economic prosperity followed, to be interrupted mainly by the housing bubble and mortgage crisis. And that affected everybody – rich, poor; business, labor, employers, and employees. The cause? There's plenty of blame to go around but the Community Reinvestment Act (CRA) started it all. This well intentioned CRA legislation ended up putting real estate in the hands of more lower income families – not bad in itself. But eventually, the artificial demand dramatically drove up the price of houses, and many owners ended up with mortgages they couldn't afford – and no equity. All in the name of "fairness." Comparing economic or employment statistics from early 2009 with early 2001 is absurd. The collapse came primarily as a result of government intervention in the housing market – NOT from tax policy.

Mallard Fillmore by Bruce Tinsley



Class Warfare and the Politics of Envy – The Liberals’ Ideology

Tax rates now are meant to make an ideological statement and promote class-warfare politics, not just bring in revenue. When you point out to progressives that "the rich" have historically paid more total tax revenue to the government after what have been called "tax cuts for the rich," that doesn't make any difference. The "rich" paying a higher share of taxes doesn't matter.



And, unfortunately, the “politics of envy” often leads to programs that stifle true progress, economic growth, and employment – a great example of the latter is raising the minimum wage. What matters politically is the image of coming out on the side of “the people” and against “the privileged.” But we have lost sight of who the privileged really are – sometimes it IS “just regular people”.

Why All This Push for Artificial Equality?

Liberals/progressives/democrats loyally seek the utopian ideal of total equality - whether in housing, the job market or overall levels of wealth. They are blind to some of the realities of our culture and economy. They truly seem to value total equality as preferable to diverse economic outcomes, more opportunity, and greater average prosperity for all. GOOD GRIEF!

These folks loyally seek the utopian ideal of total equality. They are blind to some of the realities of our culture and economy. They don't realize the foolishness of their strategy.

I repeat something I have written before (there I go, repeating myself OVER and OVER and OVER again): Liberals/progressives are so passionately opposed to their opponents they actually create a frightening image of the republicans/conservatives as being bad and evil. They truly seem to consider total equality as preferable to less equality, more opportunity, and greater average prosperity for all. Go figur'!?? AND A FINAL GOOD GRIEF!!

I don't take the positions described in this report because I'm either "rich" or "schmart." I aren't neither! I'm really stupid ... but fair, logical and objective. Just thought I'd admit that.