Obama’s Rich-bashing & Economic Ignorance

At a Labor Day rally in Milwaukee, Obama declared that the United States “didn’t become the most prosperous country in the world by rewarding greed and recklessness.”

He didn’t say whether we became the most prosperous country via income redistribution and mandatory wealth spreading.

He also didn’t say whether the “greed” accusation applied to folks like Jay-Z and overpaid federal bureaucrats or just to the regular capitalists and entrepreneurs who run America’s car repair shops and jewelry stores on Main Street.

He also didn’t say whether his definition of “recklessness” includes the nonstop and decentralized risk-taking that’s inherent in a free enterprise economy, a system rooted in what Austrian economist Joseph Schumpter called “creative destruction.”

Schumpter was being positive. The endless string of winners and losers, the bankruptcies and newly formed companies, are essential components of an efficient and growing economy based on private property, limited government, and individual freedom.

For various types of central planners and statists, this process of decentralization and freedom has always looked way too messy and uncontrolled, way too prone to “recklessness.”

Obama also declared that “anyone who thinks we can move this economy forward with a few doing well at the top, hoping it’ll trickle down to working folks running faster and faster just to keep up — they just haven’t studied our history.”

In fact, the history of the 1960s and 1980s, under Democrat and Republican Presidents, shows that the benefits of cuts in top marginal income tax rates clearly trickled down to help “working folks” in the form of more jobs, less unemployment, less poverty, less inflation, and higher wage growth.

The John F. Kennedy income tax cuts of 30 percent that were enacted in 1964, cutting the top marginal federal income tax rate from 91 percent to 70 percent, were followed by several years of 5 percent real GDP growth per year, dropping the unemployment rate from 5.2 percent in 1964 to 3.5 percent in 1969, a lower jobless rate than the 4.0 percent unemployment rate that’s generally defined as “full employment.”

Similarly, the Ronald Reagan income tax cuts produced real average annual GDP growth of 3.2 percent from 1981 to 1989, a higher growth rate than existed before and after the Reagan years — the 2.8 percent average real annual growth in the pre-Reagan years from 1974 to 1981, or the 2.1 percent growth in the post-Reagan years from 1989 to 1995.

Following the Reagan cut in the top marginal federal income tax rate from 70 percent to 28 percent, unemployment was cut in half, from 9.7 percent in 1982 to 5.3 percent in 1989.

And the impact on the poor? The real income, adjusted for inflation, of the poorest fifth of U.S. households increased 12 percent in the Reagan era, reversing a 17 percent decline in their average real income from 1979 to 1983 before Reagan's pro-growth tax cuts kicked in.

The poverty population in the U.S., after growing by 7 million in the late 1970s, dropped by 4 million in the 1980s. The real median income, adjusted for inflation, of African-American households increased by 17 percent from 1982 to 1989, reversing a 10 percent decline from 1978 to 1982.

Obama's strategy? Ignore the aforementioned history and raise taxes on "the rich" during a recession, for "fairness." That's a clear policy of economic and political "recklessness," a strategy that will keep millions of people needlessly unemployed.

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