



Written by [Thomas Sowell](#) on December 7, 2010

“Tax cuts for the Rich” Demagoguery

Guess who said the following: “It is incredible that a system of taxation which permits a man with an income of \$1,000,000 a year to pay not one cent to his Government should remain unaltered.” Franklin D. Roosevelt? Ted Kennedy? Nancy Pelosi?

Not even close. It was Andrew Mellon, Secretary of the Treasury under conservative Republican President Calvin Coolidge.

What was Mellon’s point? That high tax rates do not necessarily result in high tax revenues to the government. “It is time to face the facts,” he said. Merely having high tax rates on large incomes will not bring in more tax revenues to the treasury, because of “the flight of capital away from taxable investments.”



This was all said in 1924, in Mellon’s book, *Taxation: The People’s Business*. Yet here we are, more than 80 years later, still not facing those facts.

It is not just a question of what Andrew Mellon said. It is a question of hard facts, easily checked in official documents available to all — and ignored all these years.

Internal Revenue Service data show that there were 206 people who reported annual incomes of one million dollars or more in 1916. But, as the tax rate on high incomes skyrocketed under the Woodrow Wilson administration, that number plummeted to just 21 people reporting a million dollars a year in income five years later.

What happened to all those millionaires? Did they flee the country? Were they stricken with fatal diseases? Did they meet with foul play?

Not to worry. Right after Congress enacted the cuts in tax rates that Mellon had been urging, there were suddenly 207 people reporting taxable incomes of a million dollars or more in 1925. As Casey Stengel used to say, “You could look it up.” It is on page 21 of an Internal Revenue publication titled *Statistics of Income from Returns of Net Income for 1925*.

Where had all the income of those millionaires been hiding? In tax-exempt securities like state and local bonds, among other places. Mellon had urged Congress to end tax exemptions for such securities, even before he got them to cut tax rates. But he succeeded only with the latter, and only after a political struggle with those who made the same kinds of arguments that are still being made today by those who cry out against “tax cuts for the rich.”

Still, one out of two is not bad, when it comes to getting Congress to do something that makes sense economically, rather than something that looks good politically.



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The government, which collected less than \$50 million in taxes on capital gains in 1924, suddenly collected well over \$100 million in capital gains taxes in 1925. At lower tax rates, it no longer made sense to keep so much invested in tax-exempt securities, when more money could be made by investing in the economy.

As for “the rich” — who really were rich in those days, when \$100,000 was worth more than a million dollars is worth today — those in the highest income brackets paid 30 percent of all taxes in 1920 and 65 percent of all taxes by 1929, after “tax cuts for the rich.”

How can that be? Because high tax rates on paper, that many people avoid, often does not bring in as much tax revenue as lower tax rates that more people actually pay, after it is safe to come out of tax shelters and earn higher rates of taxable income.

The investors do this because it makes them better off, on net balance, even after they pay more money in taxes on incomes that have gone up. More important, the economy benefits when there is more investment in things that create more jobs and rising output.

None of this was unique to the 1920s. The same scenario played out again in later years, during the Kennedy, Reagan and Bush 43 administrations.

But economic success is not the same as political success. As former House Majority Leader Dick Armey put it, “Demagoguery beats data.”

As long as the voters keep buying the “tax cuts for the rich” demagoguery, politicians will keep selling it. And it will keep selling as long as it goes unanswered. The question is whether today’s Republicans understand that as well as Andrew Mellon did back in the 1920s.

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