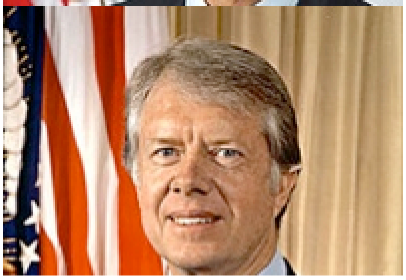
Democrats' Tax Dreams a Nightmare for America



Remember the halcyon days of the late 1970s, when inflation, interest, and unemployment rates all soared into double digits? Back then the top marginal income tax rate in the United States was 70 percent, which may just have had something to do with the economic malaise of the period.

According to the *Wall Street Journal*'s Stephen Moore, if Democrats in Washington get their way, America could well be headed for a total federal and state income tax burden of 62 percent on the highest earners — not far from the highest federal rate during the Jimmy Carter era. Add to that multiple increased taxes on investments, and the United States, Moore argues, could end up being one of the most highly taxed nations in the world.

How does Moore arrive at his 62 percent figure? Starting with the existing maximum tax rate of 35 percent, he first observes that the rate would rise to 41.5 percent if the Bush tax cuts were repealed, something he says "almost all Democrats in Washington want." "The 3% millionaire surtax raises that rate to 44.5%," he explains. Then he adds "about 2.5 percentage points for the payroll tax for Medicare." (Moore notes that while officially the employer pays half the tax, he is including the full tax in his calculations because "most economists agree that … it is ultimately borne by the employee.") Next comes a 0.9 percent Medicare surtax on "high-income earners," enacted as part of ObamaCare. Then there is "the possibility of eliminating the income ceiling on the Social Security tax, now capped at $106,800 of earnings a year," recently suggested by President Barack Obama; Moore calculates that doing so "would add roughly 10.1 percentage points to the top tax rate." Pile on an average of four percentage points from state income taxes, and you get Moore's maximum rate of 62 percent.

Such a punitive tax rate would be bad enough on its own. Unfortunately, Democrats have chosen to slap even more taxes on investment income and would increase them further if they could. ObamaCare includes a 3.8 percent investment tax; combined with Democrat-favored Bush tax cut repeal, this would raise the capital gains tax rate from 15 percent to 23.8 percent. The dividend tax, meanwhile, would triple, going from 15 percent to 45 percent.

None of this is conducive to economic growth; and, needless to say, it is certainly not the mark of a free country.

Moore goes on to compare the Democrats' preferred tax rates to those of the United States in decades past and to other developed nations. He states that after the Tax Reform Act of 1986, "the highest combined federal-state marginal tax rate was about 33%. Now we may be headed to 62%. You don't have to be Jack Kemp or Arthur Laffer to understand that a 29 percentage point rise in top marginal rates would make America a highly uncompetitive place." Furthermore, he says, while "over the past two decades the average highest tax rate among the 20 major industrial nations has fallen to about 45%" — it is about 30 percent if developing nations such as China and India are included — Democrats would push the top income tax rate alone to 48 percent. "What all this means," Moore concludes, "is that in the late 1980s, the U.S. was nearly the lowest taxed nation in the world, and a quarter century later we're nearly the highest."

Having presented all the evidence that the Democrats' plans to "soak the rich" will do nothing but harm, Moore writes:

> Despite all of this, the refrain from Treasury Secretary Tim Geithner and most of the Democrats in Congress is our fiscal mess is a result of "tax cuts for the rich." When? Where? Who? The Tax Foundation recently noted that in 2009 the U.S. collected a higher share of income and payroll taxes (45%) from the richest 10% of tax filers than any other nation, including such socialist welfare states as Sweden (27%), France (28%) and Germany (31%). And this was before the rate hikes that Democrats are now endorsing.

Republicans, owing to sheer numbers, were unable to prevent the passage of ObamaCare and its numerous tax increases. Merely by winning an election, however, they were able to persuade the President to extend the Bush tax cuts (i.e., not to raise taxes), though Obama maintained that the "cuts" would have to be permitted to expire in two more years. Now that they control the House of Representatives, it is certainly within their power to prevent the Democrats' other tax hike dreams from becoming reality.

That is still not enough. As long as spending remains at astronomical levels and the federal government is allowed to go deeper into debt — issues few Republicans appear willing to tackle head-on — Democrats will always be able to argue, as Obama did concerning the Bush tax cuts, that "we can't afford these tax cuts any longer." In fact, one could make the case that keeping tax rates low while paying the government's bills via deficit spending and inflation is highly irresponsible and that we would be better off with high tax rates and no deficits or inflation. Unfortunately, unless spending is brought under control, what we are likely to get in the long run is high taxes, deficits, *and* inflation — a deadly cocktail, to say the least.

Republicans (or Democrats) interested in how to prevent such a catastrophe are invited to peruse the document they all swear to uphold upon taking office: the U.S. Constitution.