

Trickle-Down Misery

In the 1980s, the concept of Reagan's "trickle down" economics was frequently ridiculed by liberals in general and the media in particular. Apparently taxing people less and leaving more money in their pockets would not lead to anything being done with that money. From my naïve perspective I tended to doubt that people would react to tax cuts by simply stuffing the money into their mattresses, where it would lay undisturbed until a Democrat took office, and I don't recall running across that theory while reading the works of economists like Friedrich Hayek, Henry Hazlitt, Frederic Bastiat, and Milton Friedman. (In the interest of full disclosure, I admit that I've never read books on economic theory written by Barbra Streisand, Rob Reiner, Susan Sarandon, or Michael Moore.)

Perhaps because wealthy liberals are surrounded by other wealthy liberals, they believe that rich people's money only touches the hands of other rich people. Granted, I've never run into Bill Gates, Donald Trump, or Oprah Winfrey at the local McDonald's, but I nevertheless suspect they eat at least one or two meals each day. And assuming their private chefs don't do their cooking solely in exchange for being in close proximity to a celebrity, they probably get paid fairly well. Someone also cleans their swimming pools, someone dusts their many rooms of furniture, and someone changes the oil of their stretch limousines. I'll even go so far as to bet that Trump doesn't iron his own shirts. And the entire universe knows Oprah has a (sometimes effective) personal trainer.

Accept it or not, the truth is that if you lower a wealthy person's tax bill by one million dollars, something will happen to those funds. If the money is invested in a business, it's used to improve or expand operations, providing jobs. If the money is donated to charity, it's distributed to the needy. Even if the money is spent solely on redecorating the family mansion, it ends up in the pockets of interior decorators, furniture-builders, furniture-sellers, painters, and drapery-sewers. If the money is merely placed in a bank account, it's distributed to the bank's customers in the form of loans for new businesses, homes, or automobiles. Unless Gates, Trump, and Winfrey are hiding their greenbacks in their mattresses, it's trickling down to someone.

The 1980s tax cuts stimulated the economy to a great degree, something even the Clinton Administration had to admit... albeit reluctantly, after defeating George H. W. Bush in 1992. (In 1994, Clinton's Council of Economic Advisors said, "It is undeniable that the sharp reduction in taxes in the early 1980s was a strong impetus to economic growth.") And, contrary to media-fed popular opinion, the federal government did not lose revenue because of the Reagan tax cuts. In fact, individual income tax revenues increased dramatically during the 1980s, from \$244 billion in 1980 to \$446 billion in 1989. The problem of the 1980s was not that tax cuts didn't cause a trickling down of wealth, the problem was that Congress continued to spend even more than it received in additional revenue, racking up record deficits in the process. You can blame Reagan for not vetoing more spending bills, but it was Congress that voted for the spending in the first place.

None of these comments will persuade liberals, of course. To a liberal, no one can pay too much in taxes, because even if you are taxed at 100 per cent all your needs could and should ultimately be satisfied by the welfare state. To a liberal, giving someone a tax cut is not “confiscating less of his hard-earned money,” it’s a gift from a benevolent, all-seeing, and all-knowing government to a selfish, greedy, capitalist.

The concept of “trickle-down wealth” will regrettably not be learned by some people until they witness its converse – “trickle-down misery.” An Obama presidency would clearly be instrumental in giving those doubters a tough, quick lesson in basic economics. Obama’s income tax increases, combined with state income taxes and higher cut-offs for Social Security and Medicare taxes, will leave many Americans with a marginal tax rate of over 50 per cent. When faced with that level of oppressive taxation, how many of them will bother to work harder, only to see over half of what they earn confiscated?

Obama has come up with a magical number of \$250,000 per year as the cut-off point for his legalized theft of earned income from married couples. His many adoring fans seem quite satisfied with that amount, as well as the \$100,000 figure for non-married taxpayers (although they have somehow missed the fairness problem inherent in nailing the single taxpayer at a point far less than one-half the married amount). Obama and company believe he can get half trillion dollars or so he’ll need each year for his new spending plans by taxing those “wealthy” Americans (and the oil companies).

The tax-hike crowd never recognizes, however, that there are negative side affects when taxes are raised. They are supremely unfamiliar with the term “elasticity.” (They must have missed that chapter in Streisand’s book on basic economic theory.) Google the term if you must look at complicated mathematical formulas, but elasticity refers simply to how something responds to changes in one or more related factors. For example, if a business raises the price of its product by 10 per cent it won’t necessarily see a revenue increase of 10 ten percent, because the higher price will discourage consumers from buying the product. Similarly, doubling a tax rate doesn’t mean a doubling of tax revenue, because the higher rate discourages the work, investment, or activity that generates the revenue in the first place. Americans are nothing if not imaginative, and they will certainly do what they can to avoid paying higher taxes. If working overtime places someone in a higher tax bracket, for example, he may simply forego the overtime rather than sacrifice a high portion of that additional income to the government. If selling assets exposes you to confiscatory capital gains taxes, you won’t liquidate any assets. If dying exposes your estate to high estate taxes, you won’t - oh, maybe that’s why the Democrats don’t want to eliminate the death tax! In the long run, of course, most people won’t be able to avoid Obama’s higher taxes, and they will have to pay the piper. But they’ll be taking others with them while they’re paying the piper.

I’m sure there are some crafty types trying at this very moment to print high-quality counterfeit \$20 bills in window-shrouded basements. But those criminals are few and far between, and I’d venture a guess that all of them have taxable incomes (at least the legal portion) that fall well below those \$100/\$250,000 thresholds. No, the folks who will be coughing up more money for the slick candidate who knows best how to spend it for

them can't simply power up their Epsoms or HPs and spit out high-resolution pictures of Andrew Jackson. They'll be draining their bank accounts, selling off stocks, and postponing purchases in order to avoid going to jail for refusing to pay taxes. (I'm not sure where that jail is, but it's not in Guantanamo, the food isn't as good, and the guards aren't as friendly.)

If the man who makes \$100,000 per year sees his taxes go up dramatically, will he still buy that boat he wants, or cancel the order? Will he still go through with plans for a room addition, or be satisfied with the house he has? Will he buy a new Cadillac, or keep the old one for another year? Will he sell some stocks in order to invest in one of those new "green" companies Obama gushes about, or will he sit on his existing stocks to avoid paying the almost-doubled capital gains tax that same Senator is promising? You can certainly argue that the wealthy person can survive without a new boat, room addition, or Cadillac. He'll still be able to afford groceries and pay his heating bills. (Well, maybe not if he has children in college.) But what about the middle-class worker who builds boats, room additions, or Cadillacs? Can he survive after those orders have been canceled? And where will the investment money come from for those new "green" businesses if all the excess funds are instead being handed over to the Internal Revenue Service?

Obama can argue that his spending plans aren't anywhere near as grandiose as the half trillion dollars amount that has been calculated by some of his critics. Fine, toss out a number; the exact amount is not all that important. Whether the anointed one wants to spend \$500 billion more or \$400 billion more each year doesn't change the format of the equation. However much he needs he will take (with the fervent help of Nancy Pelosi and Harry Reid), and whatever he takes has to come from somewhere. Every billion that's paid in higher taxes is a billion that would have been spent on something else in the economy. Are you willing to bet that it's not going to be at your expense?

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