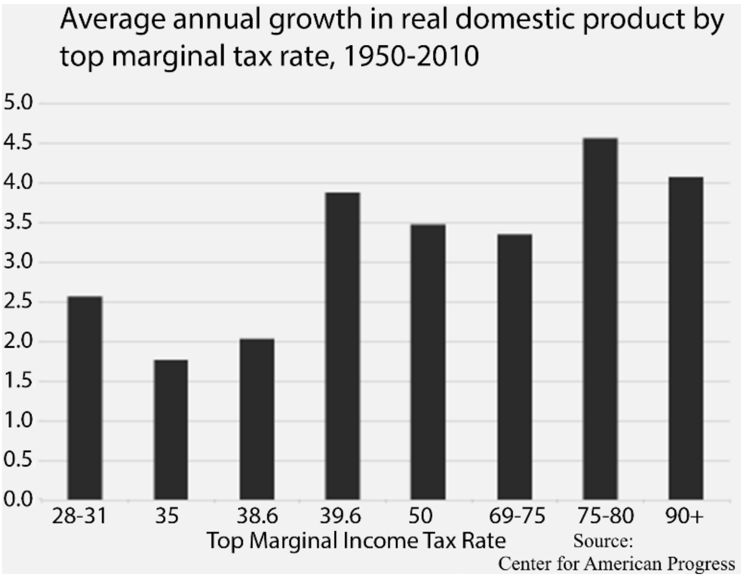
Let’s Act on Beneficial Facts rather than Harmful Myths

A successfully established myth has been created by advocates of lower taxes for the rich and corporations, that the wealthy are the job producers, so anything that reduces their income, such as higher top marginal tax rates, will reduce their ability and incentive to create jobs, so will harm economic performance. We must dispel this myth.

Lack of funds is not holding back job creation. America’s corporations are sitting on over $4.4 trillion in cash (over [$2.6 trillion overseas in tax havens] and [$1.82 trillion in the U. S.]). It is not even a dysfunctional financial sector. What is holding back job creation is the lack of demand for products and services. If more demand existed, firms would respond with investment and hiring. Many decades of experience exist where unemployment rates were far lower and business investment rates were far higher when tax rates were very much higher than they are now (as they were for decades until 1980). If these funds are used to increase the income of the middle and lower economic classes it will increase demand for goods and services. It is demand that creates jobs, so it is our high level of inequality that is destroying jobs because it is characterized by many tens of millions of people with too little money to purchase the goods and services they would if they could afford to.

When the U.S. occupied Japan and Germany after World War II and set up new democratic governments, it set a top marginal tax rate of 85 and 90% respectively, as part of the civilizing and democratizing process. [U.S. top rates were 91% at the time].

Analysis of historical data reveals a positive correlation between economic growth and top tax rates. Contrary to the claims of “supply-side” economists, economic growth tends to be greater in years when top tax rates are higher. This graph makes the positive correlation clear.



From 1951 to 1980, when the top rate was between 70% and 92%, average annual growth in the American economy was 3.7%. These tax rates that many of the most prominent “pundits” and politicians claim would cause economic disaster are associated with the opposite, economic boom. The growth rate over the decade 2006 through 2015 averaged 1.4%. “Supply-siders” claim that Ronald Reagan's 1981 tax cuts caused the 1980s economic boom. In fact, that boom followed Reagan's 1982 tax increase. Similarly, most of the 1990s boom followed Bill Clinton's 1993 tax increase.

Many factors are involved in economic growth. Correlation does not prove causation; however, the positive historical correlation of growth and top tax rates proves that higher top tax rates are not incompatible with higher growth rates, as the most prominent “pundits” in the media would have you believe. If the resulting increase in funds from the increase in top tax rates is used to support research and development, infrastructure improvements, serve the ideal of equal opportunity for everyone, reduce inequality, and other economically stimulative policies, as they have in the past, there are good reasons to believe that causal factors are involved in the positive correlation (see Part 4, Note 1 of *The New Enlightenment* for more details).

An [International Monetary Fund report] on an extensive international study of the effects of inequality and redistribution on growth supports the claim that redistributive policies are beneficial. It found lower net inequality resulting from the effects of redistributive policies to be “*robustly correlated with faster and more durable growth.*” And it found that the flatter distribution of income resulting from redistributive policies contributed more to economic growth than the quality of the country’s political institutions, its foreign debt, openness to trade and foreign investment, and its exchange rate.

The [IMF recently released another, and the largest, international study report] on inequality and growth. It found an inverse relationship between the income share accruing to the rich (top 20%) and economic growth. If the income share of the top 20% increases by one percentage point, GDP growth is 0.08% lower in the following five years, suggesting that the benefits do not trickle down. A similar increase in the income share of the bottom 20% (the poor) is associated with 0.38 percentage point higher growth. The study is based on a sample of 159 advanced, emerging, and developing economies for the period 1980–2012.