New light
on the old shibboleth
that we can pay
our extravagant tax bill
by soaking the rich

High Taxes vs. Common Sense

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Henry Hazlitt

OUR STEEPLY "progressive" personal income taxes, as students of the subject have long recognized, undermine incentives and slow down the capital formation upon which our economic progress in the long run depends. Now a new study by the Tax Foundation, a nonprofit organization engaged in research on government spending and taxation, proves that these confiscatory rates do not even achieve their ostensible purpose of raising revenue.

If a flat rate of 20 percent (at present applying only to the lowest taxable income bracket) were applied, for example, to all taxable income, 85 percent of the revenue at 1955 rates would still be obtained. This rate produced 25.5 billion dollars of the revenue from the personal income tax in 1955. All the "progressive" rates together produced only 4.4 billion more.

Our extravagant federal expenditures are in large part the result of the belief that "the rich" are paying them. This belief is a delusion. If the present rate structure were cut off at a maximum of 50 percent, 98 percent of the revenue at 1955 rates would still be obtained. (The loss in revenue would be only 734 million dollars.) If the present rate structure were cut off at a maximum of 70 percent, 99.5 percent of the revenue at 1955 rates would still be obtained. (The loss would be only 145 million dollars.)

But even these relatively small losses are calculated on the assumption that income in the higher tax brackets would not change. Yet the Tax Foundation's study provides a heavy presumption that if the top rates were reduced as indicated, the incomes they affected would increase as a result of the incentives (or reduced deterrents) provided by the tax cut. They would increase enough actually to provide more government revenues from these incomes.

Time and again, when the highest rates were reduced, relative revenues from the high-income brackets rose. During the 1920's the greatest reduction in surtax rates was at the

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top of the income scale (from 65 percent to 20 percent). Despite this reduction, the share of the total income tax paid by the high-income bracket more than doubled—from 30 percent in 1920 to 65 percent in 1929.

The effect of high taxes on incentives to work and invest has been obscured, it is true, by nearly three decades of depression, war and inflation. But it is enormously probable that cutting off the top progressive rates at a maximum of 50 percent (instead of the present punitive 91 percent) would lead to an actual *increase* in governmental revenues. If Congress can set aside all catering to prejudice and envy, and courageously take this step, it will achieve a major tax reform without endangering a balanced budget.

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B. SPOTLIGHT NO. F-384, by Crawford H. Greenewalt, President, E. I. du Pont de Nemours and Company, "The Long-Range Need for Incentives."

C. SPOTLIGHT NO. F-388-9, by Robert B. Dresser, "The Dirksen-Gwinn Amendment (Formerly Known as the Reed-Dirksen Amendment) Limiting the Power of Congress to Tax Incomes, Inheritances and Gifts. Lesson to be Learned from the Experience of other Countries."

D. SPOTLIGHT NO. E-354, by Willford I. King, "Some Effects of Confiscatory Taxation."

COMMITTEE FOR CONSTITUTIONAL GOVERNMENT, INC.
205 East 42nd Street New York 17, N. Y.