Are The Wealthy Taxed Enough?
Four experts, including Columbia Business School Dean Glenn Hubbard, debate both sides of this contentious question.

The debate over taxing the wealthy has been a cornerstone of the U.S. presidential campaign and a topic that reverberates far beyond America's borders. Nations like Greece and Spain that are also faced with high government debt and a widening gap in wealth distribution are looking closely at U.S. policy. If increasing taxes on wealthy Americans proves to be an efficient and equitable way to raise much-needed government revenue, the strategy is likely to be replicated abroad.

Last Wednesday night, as part of the Intelligence Squared U.S. debate series, a group of experts faced off over this issue. Glenn Hubbard, dean of Columbia Business School, and economist Arthur Laffer, creator of the Laffer curve, argued that the rich are taxed enough. On the opposing side, Robert Reich, former U.S. Secretary of Labor, and Mark Zandi, chief economist of Moody's Analytics, insisted that raising tax rates for the rich is the only way to fix the economy.

All four economists concurred that some combination of increased tax revenue and reduced government spending is necessary to narrow the US federal deficit—and is fairer than simply asking the wealthy to fund government spending. But the question of who, exactly, should be handed a higher tax bill and how an additional tax burden might impinge national economic growth provoked heated disagreement.

Rising income inequity served as the foundation of Reich and Zandi's position that the wealthy can well afford to bear a larger share of the nation's tax burden. The richest 1 percent now earn more than 20 percent of total income—up from 10 percent in 1980—while median family incomes have dropped 8 percent since 2000. "The rich have never had it so good," Reich argued. "The richest 400 Americans have more wealth than the bottom 150 million of us put together."

Hubbard, who deemed a tax increase for the wealthy "counterproductive and unnecessary," countered that simply increasing taxes on the richest 1 percent—who already pay more than a quarter of all federal taxes—does not produce enough revenue to close the deficit gap. And, he noted, the United States already has a progressive tax system that relies more on high-income individuals than most other industrial nations. If we elect to expand the size of government, the funding will have to come from European-style broad-based consumption taxes, which are borne by all citizens, he noted.

"You can't tax an economy into prosperity," Laffer added. Abundant evidence links lower tax rates with strong economic growth: the boom years of the Reagan era, for example, saw top tax rates drop to 35 percent on earned income and 15 percent on unearned income, while tax rates on the top earners in the 1930s soared from 25 percent to 79 percent and helped bring on the Great Depression, he said.

Hubbard and Laffer instead proposed tax reform that would close loopholes and exemptions, effectively broadening the tax base, so that marginal tax rates could be lowered across the board.

The Jobs Battle
Another barrier that divided the two sides was the question of how taxing the wealthy impacts job creation. Hubbard argued that hiking taxes on the top 1 percent of earners—nearly half of whom are business owners—will discourage hiring and investments.

Zandi pointed out that this hasn't been the case in the past. He noted that 22 million new jobs were created during the tenure of President Clinton, who raised taxes on the wealthy, and President Bush's 2001 and 2003 tax reductions on top earners failed to produce the projected economic growth and job creation. In fact, during the three decades preceding 1981 when President Reagan slashed tax rates, the top marginal tax rate was at least 70 percent, and "the economy grew faster on average per year than it has since 1981," Zandi noted.

Throughout U.S. history, tax rates have been raised and lowered and the economy has seen its share of ups and downs, making exact correlations hard to determine. For the audience gathered last week, Reich and Zandi's contention that the rich should bear the lion's share of tax revenues clearly resonated more than the idea that the wealthy are taxed enough. Sixty-three percent of attendees disagreed with the motion after the debate as opposed to 49% when the evening began.

Whether or not taxing the rich can jump-start economic growth and lower the federal deficit remains to be seen. But that will surely be a top mandate of the next U.S. president – and the whole world will be watching.