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Obama Tax Hikes Defended by Myths and Straw Man Arguments: Summary

J. D. Foster, Ph.D.

President Barack Obama has called for a huge, $921 billion tax increase beginning on January 1, 2011. Congressional Democrats intend to meet his request and more—after the mid-term elections.[1] To achieve the bulk of this increase, they need merely do nothing: The tax relief enacted a decade ago is scheduled to expire.

Raising taxes now or in the future is the wrong course. Projected deficits are due to excessive spending, not a dearth of revenues. The arguments for defeating the tax increase are sound. Proponents of raising taxes have offered many straw man arguments and myths to support their case.[2]

STRAW MAN: Extending current tax policy will not stimulate the economy.

REALITY: Extending current tax policy will provide at most a modest boost to the economy, but raising taxes will slow down recovery.

This is a straw man argument because proponents do not argue that continuing current policy would add much to stimulus. Effective economic stimulus requires some new policy.

MYTH: Preventing a tax hike is a tax cut.

FACT: Extending the 2001 and 2003 tax provisions is not a tax cut; failure to extend these provisions is a tax hike.

Failure to extend current tax policy would impose massive tax hikes on millions of Americans. Preserving current tax policy is not a tax cut.

MYTH: An extension of the tax cuts must be paid for.

FACT: It is neither necessary nor logical to raise taxes to avoid a tax hike elsewhere.

The "fact" in this case may seem so obvious as to be perplexing. Extending current tax policy is not a tax cut; it is the prevention of a tax hike and the deficit is not increased thereby.

MYTH: Higher tax rates would not weaken the economy in the short run.

FACT: Higher tax rates would sap the recovery.

Raising taxes on work and investment would mean less work and less investment and can be regarded only as an overtly hostile anti-jobs policy.

MYTH: Small businesses would be only marginally impacted by higher taxes rates.

FACT: Successful, growing, hiring small businesses are especially targeted by higher tax rates.

Many Americans report business income from hobbies, sideline businesses, etc., thus inflating the number of so-called "small businesses." True small businesses have employees and machinery, offer

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(202) 546-4400 • heritage.org

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goods and services widely, and are far fewer in number. Yet they earn most of the small business income that would be subject to the higher rates.

MYTH: Tax rates matter little in the long run.

FACT: Tax rates have their most powerful effects on long-run growth and wages.

The effects of tax changes take time to manifest fully because major business investments typically require extended evaluation, planning, and implementation. Similarly, while workers respond quickly to changes in tax rates, a full response takes time as they adjust their spending and budgets accordingly.

MYTH: The country cannot afford not to raise taxes.

FACT: The problem is spending, not revenues. The country cannot afford to let current spending levels continue.

Taxes as a share of the economy will soon exceed the historical average. The current and projected unsustainable deficits are due to Obama's spending surge, not a shortage of revenue.

MYTH: The Obama tax hikes would alleviate the long-term budget crisis.

FACT: The Obama tax hikes, while enormous in their own right, are almost inconsequential compared to the size of the unfunded spending in Social Security, Medicare, and Medicaid.

Tax relief enacted a decade ago did not cause excessive entitlement spending. Tax increases today and in the future would do little to address the long-term fiscal picture.

MYTH: A strong economy would solve America's budget woes.

FACT: A strong economy would help, but only aggressive spending reductions would restore a sound fiscal policy.

A strong economy would increase revenues to federal coffers but would not by itself restore a sound fiscal policy. Only significant spending reductions can simultaneously preserve a strong economy while establishing a sustainable fiscal policy.

MYTH: President Bush intended the tax cuts to expire.

FACT: The tax cuts were to be permanent and were enacted on a temporary basis solely to overcome a parliamentary hurdle.

President Bush proposed permanent tax relief and repeatedly called for it to be made permanent.

Spending Is the Problem. Obama and his allies have increased spending radically. A sound, responsible budget policy absent tax hikes does not demand radically lower levels of spending but only reversing Obama's radical spending. Congress should make current tax policy permanent and then get about the business of paring government spending to sustainable levels.

—J. D. Foster, Ph.D., is Norman B. Ture Senior Fellow in the Economics of Fiscal Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

1. Obama has proposed allowing all of the 2001 and 2003 tax cuts applicable to taxpayers with annual incomes above $200,000 ($250,000 for married filers) to expire, which would raise taxes by $629 billion between 2011 and 2020. He has also proposed limiting the tax rate applicable for itemized deductions for these same taxpayers, which would raise an additional $292 billion. See Office of Management and Budget, "Mid-Session Review: Budget of the U.S. Government, Fiscal Year 2011," at *http://www.whitehouse.gov/sites/default/files/omb/budget/fy2011/assets/11msr.pdf* (August 13, 2010).
2. For a longer version of this paper, see J. D. Foster, "Obama Tax Hikes Defended by Myths and Straw Men," Heritage Foundation *Backgrounder* No. 2454, August 26, 2010, at *http://www.heritage.org/Research/Reports/2010/08/Obama-Tax-Hikes-Defended-by-Myths-and-Straw-Men.*