

A hidden agenda behind the 90 percent tax?

by *Lawrence_Kudlow*

Taking advantage of the populist revolt against Wall Street and AIG bailouts, the House Democrats have passed a vengeance tax on TARPed financial firms that amounts to a 90 percent marginal tax rate on bonuses.

This is being done in the name of AIG outrage, and nobody wants to defend the insurance company — including me. The financial-products division helped blow up the global credit system, and it shouldn't be rewarded. Yet one wonders about this 90-percent tax rate. If it passes the Senate, will it ever be repealed? This could be the ultimate class-warfare spread-the-wealth redistribution scheme, aimed squarely at punishing success and penalizing the so-called rich.

Note that the \$250,000 cut-off point for the tax is the same line drawn in the sand in President Obama's budget for tax hikes on investors and successful earners. The president is proposing a tax rate of 40 percent, not 90 percent. But connecting the dots between Speaker Pelosi and Obama, it will be interesting to see if the president dares sign this bill.

And even though the 90 percent tax is a reaction to the AIG bonus fiasco, you have to wonder if the very-liberal-left House Democrats have a much broader agenda: to completely overturn the supply-side tax cuts of Ronald Reagan and John F. Kennedy.

A bit of history is in order. Following World War I, the Harding-Coolidge-Mellon Republicans returned the country to tax normalcy by reducing Woodrow Wilson's 75 percent wartime tax to 25 percent — thus triggering the roaring growth of the 1920s. Then came the Depression, spawned in large part by Herbert Hoover and FDR, who raised the top tax rate to 63 percent, 70 percent and finally 94 percent.

The Robert Taft Republican Congress elected in 1946 lowered those tax rates, but they later bounced back to 91 percent, where they held until JFK proposed sweeping tax reform in the 1960s. The top tax rate was reduced to 70 percent, igniting the 1960s boom — until it was undone by the inflationary Fed and Nixon's de-linking of the dollar from gold. But President Reagan slashed the top tax rate all the way down to 28 percent. This launched a multi-decade boom, with the top rate not straying far from Reagan's vision.

Now, Obama has said that he has no intention of returning to the 70 percent or 90 percent tax rates of the past. But one wonders if the 90 percent House Democratic tax rate on so-called unearned income (bonuses) might not be the congressional tail that wags the presidential dog.

Most folks will say this scenario is farfetched. But it's worth pondering. Is there truly a tax-the-rich hidden

agenda in Washington that goes far beyond the Obama budget?

I wonder about this simply because there's a much better way to recoup the misbegotten AIG bonuses. Though no one in Congress is paying any attention to beleaguered Treasury man Tim Geithner, he explained in a March 17 letter to Nancy Pelosi that the Treasury "will impose on AIG a contractual commitment to pay the Treasury from the operations of the company the amount of the retention awards just paid. In addition, we will deduct from the \$30 billion in assistance an amount equal to the amount of those payments." So the AIG bonus problem can be remedied in a much calmer and simpler way than returning to 90 percent tax rates.

But the bigger point is this: A 90 percent tax rate on financial bonuses is so punitive that it will surely drive away the best and brightest from the very banks that must heal the credit system. Do we really want D-minus students "who are willing to accept massive tax punishment" in charge of a trillion dollars in taxpayer money and spearheading economic recovery? The perverse incentives of tax retribution against AIG and other TARPed banks will surely backfire, and taxpayers and economic recovery will take the hit.

You see, taxes matter. They hugely impact economic behavior. The whole economic system is run on incentives to work, invest and take risks. And it must pay, after tax, to ignite the entrepreneurial activity that really drives the economy. Like it or not, our free-market capitalist system is driven by the economic activist, provided he or she is properly rewarded.

So the real battle here in fact could be a war between the left wing of the Democratic Party and the Reagan supply-side incentive model of economic growth.

Republicans in the House who just voted for massively high marginal tax rates had better think twice. When financial calm returns to the country, the GOP will not want to be accomplice to a confiscatory tax system that will stifle the economy and push America into decline for decades to come.

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