

JOE THE PLUMBER AND THE \$4.60 PROGRESSIVITY DEBATE

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Senator McCain has used Senator Obama's conversation with "Joe the Plumber" as the basis for the assault on Senator Obama's plan to increase taxes on those making more than \$250,000 while at the same time reducing the taxes of middle class taxpayers. Although Joe is in the middle class, he has said that if he is successful in buying a plumbing business and making more than \$250,000, he does not want Senator Obama taxing him at a higher rate.

As a result of Senator Obama's discussions with Joe, Governor Palin has referred to Senator Obama as a "socialist," and Senator McCain has referred to him as the "Redistributor-in-Chief." Surprisingly, these pejorative labels are directed at a policy that would reverse tax cuts for the wealthy enacted at the urging of President Bush and initially opposed by Senator McCain who said the following in 2001: "I cannot in good conscience support a tax cut in which so many of the benefits go to the most fortunate among us, at the expense of middle-class Americans."

What would happen to Joe if he were successful in buying the business and making over, say, \$350,000 per year? Under the current Internal Revenue Code, for each \$100 Joe earns over \$350,000, he would pay a tax of \$35. Under Senator Obama's tax plan, for every \$100 Joe earns over \$350,000, he would pay a tax of \$39.60. Thus, Senator Obama's plan would tax Joe an additional \$4.60 for each \$100 Joe makes over \$350,000, and this \$4.60 is the basis of the argument around Joe the Plumber.

What would be the economic effect of the increase in tax on Joe's income and would it be fair? I first turn to the economic effect. Senator McCain says that the additional \$4.60 will destroy jobs in small businesses. This statement is flat wrong for at least three reasons. First, 80% of those subject to a tax increase are not owners of small businesses. Second, similar arguments were made in 1993 by the opponents of President Bill Clinton's proposal to increase the top marginal rate from 35 percent to 39.6 percent, but that tax increase was followed by the greatest economic boom since World War II.

Third, apart from the 1990s, the two highest periods of economic growth since the depression were (1) from 1941 through 1944, and (2) from 1962 through 1969. In both of these periods of high economic growth, the top marginal tax rates were significantly higher than they are today: 94% in the 1940s and 70% in the 1960s. Given the direct relationships between high marginal rates and high economic growth, it is a gross overstatement for Senator McCain to claim that increasing the top marginal rate from 35% to 39.6% is going to lead to a loss of jobs.

I now turn to the fairness question. Different people have different views of fairness. However, throughout the history of the income tax the rates have been progressive, meaning that the more a person has in taxable income, the more the person pays proportionately in tax. Even under President Bush's current rate structure, the system is progressive, ranging from 10% to 35%. Senator Obama would simply increase the progressivity by reinstating higher marginal rates for taxpayers making more than \$250,000.

Since we have always had a progressive income tax system, most informed Americans would likely think that such a system is fair. And, I believe that most informed Americans would believe that the view of progressivity held by Senator Obama today and by Senator McCain in 2001 is fairer than Senator McCain's view of progressivity today. I also believe that if Joe the Plumber took the time to understand the real issue in this \$4.60 debate, he too would think Senator Obama's proposal is fair.

One final point: When Senator McCain's father and my father were fighting for this country during World War II, the most well-off Americans were subject to a \$94 tax on each \$100 subject to the highest bracket, and when Senator McCain and I were fighting for this country during the Vietnam War, the most well-off Americans were subject to a \$70 tax on each \$100 subject to the highest bracket. But now that this country is in the middle of wars in Iraq and Afghanistan, Senator McCain claims that Senator Obama's plan to raise the marginal rate on the most well-off Americans by 4.6 percentage points from 35% to 39.6% is socialist. Every informed American, whether Republican, Democrat, or Independent, needs to understand why Senator McCain's statement is not true.