



Can the GOP defend capitalism?

Written by **Stephen MacLean** | Thursday 16 February 2012

Of America's two political parties, Republicans are viewed as the better friend of the market-place. But these capitalist credentials have taken a beaten in the race to choose a candidate to challenge the Democrats for the White House. Two recent events on the campaign trail epitomise GOP troubles.

The first sign of danger came in January when former Massachusetts governor Mitt Romney's [business career came under scrutiny](#), with former Speaker of the House Newt Gingrich (and Texas governor Rick Perry) calling into question Romney's tenure at Bain Capital, a private equity and venture capital firm — which Perry characterised as 'vulture capitalism'. An independent Gingrich Super PAC exacerbated the issue with [an incendiary video](#) from which even the candidate distanced himself. Facing outrage from the business community, Gingrich soon abandoned this avenue of attack to focus on Romney's personal tax records in a [South Carolina exchange](#). A few days later in [Tampa, Florida](#), Romney complicated matters with a populist appeal against Gingrich's own zero capital gains tax policy, quipping that 'under that plan, I'd have paid no taxes in the last two years.'

Romney mounted a belated [counter-offensive](#) in a CNBC interview with Lawrence Kudlow, but his on-the-stump sop on taxes deserves reproof: For whereas the supply-demand, profit-loss principles of capitalism are easy to grasp, the obfuscation that underpins disingenuous 'the rich should pay their fair share' [class warfare arguments](#) need vigorous refutation.

Double taxation lies at the heart of the subterfuge, when a capital gains tax ([15% maximum](#)) is heaped upon wage incomes that already have

been taxed ([35% maximum](#)) — an [ant-grasshopper taxation policy](#) where capital investors pay while capital consumers play.

Michael Tanner, a senior fellow at the Cato Institute, deconstructs President Obama's so-called '[Buffet rule](#)' (a 30% minimum tax on high earners):

Buffett makes most of his money from investment income (capital gains and interest), and he pays a capital-gains tax rate on that money. [...] However, the president's narrative ignores the fact that Buffett's income had already been taxed at the corporate level. When the effect of both taxes is combined, the real effective tax rate is closer to 45 percent. That is quite a high rate on an inherently risky activity — investing — that our tax code should encourage.

Dan Mitchell, another Cato senior fellow, further unravels the capital gains tax canard with an explanatory [video and chart](#).

Romney committed a second own goal during a February interview on [CNN](#), saying 'I'm not concerned about the very poor; we have a safety net there. If it needs repair, I'll fix it'. Again, Gingrich [took the putative front runner to task](#), arguing that 'I think what he said and the underlying part of that is very revealing. I think we want to replace the safety net with a trampoline. We want to have policies ... to help the poor become middle class, to help people get out of poverty.'

It was Texas Rep. Ron Paul, libertarian *extraordinaire* but long-shot nominee, who came to Romney's defence in both instances. With respect to [Bain Capital](#), Paul said of Romney's Republican critics: 'I think they're wrong. I think they're totally misunderstanding the way the market works. They are either just demagoguing or they don't have the vaguest idea how the market works.'

And in relation to the poor, [Paul defended Romney](#), saying that he didn't believe that the governor was unconcerned about the poor, but that 'I think the problem is he's a victim of his own economic theories, rather than him being cold and heartless.'

What is shocking about these misguided economic smears is how the supposed defenders of free markets shape their vision according to the

language of 'social democracy'. As Friedrich Hayek opined in [*The Intellectuals and Socialism*](#), 'That a particular measure tends to bring about greater equality has come to be regarded as so strong a recommendation that little else will be considered.'

But for Republicans, the issue is even more invidious, for in trying to counter the Democrats' strongest electoral message — 'social justice' — they have ceded the field of first principles to their opponents: 'Since on each particular issue it is this one aspect on which those who guide opinion have a definite conviction, equality has determined social change even more strongly than its advocates intended,' wrote Hayek.

The overall picture is ominous:

...today in most parts of the Western world even the most determined opponents of socialism derive from socialist sources their knowledge on most subjects on which they have no first-hand information. With many of the more general preconceptions of socialist thought, the connection of their more practical proposals is by no means at once obvious; in consequence, many men who believe themselves to be determined opponents of that system of thought become in fact effective spreaders of its ideas.

With the GOP's championship of capitalist tenets not above reproach and with Democrats preparing to run on a platform of redistributionist measures, wealth creators are put on notice.

Though the true path to eradicating poverty lies in innovation, entrepreneurship, and capital accumulation, rich and poor alike will be sacrificed in the 2012 race for the White House to easy rhetorical platitudes and political opportunism. Between the safety net or the trampoline, will voters be given a real choice?