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Political Hay

Eat the Rich

By [W. James Antle, III](#) on 9.20.11

Or dare congressional Republicans not to.

President Obama unveiled deficit-reduction proposals in February, in response to his party's electoral shellacking, and in April, in response to being shown up by Paul Ryan. Perhaps his latest grand budget bargain should be called "Deficit Reduction Part Three: This Time I'm Serious."

Except he isn't. The spending cuts seem mostly to be the work of Medicare's Independent Payment Advisory Board (IPAB), an unproven entity soon to bring its magical rationing powers and King Solomon-like decision-making to health care near you. But the tax increases are easily identifiable enough.

The Bush tax cuts, extended by Obama late last year, go bye-bye for upper-income taxpayers. Those earning more than \$250,000 a year will see their taxes go up further still as various loopholes are closed and tax breaks are phased out. (This won't be tax simplification, however, since this package has been cooked up partly to offset proposed new credits cluttering the tax code for people who earn an Obama-approved amount of money and do what he says.)

Throw in the "Buffett Rule," which is effectively another alternative minimum tax designed to ensure that millionaires pay their fair share. It is ostensibly named after Warren Buffett, but Jimmy Buffett may be more appropriate. When it eventually grows to ensnare middle-class taxpayers -- as did the original alternative minimum tax, also billed as targeting the super-rich -- Americans will sing, "It's a real beauty... How it got here, I haven't a clue."

All told, we are talking about \$1.6 trillion in tax increases to fund not just deficit reduction, but also tax cuts and spending increases for others. That's because tax cuts create jobs, except tax cuts for people and businesses that earn enough money to hire people. This is apparently another new Buffett Rule, so fix yourself another plate.

Proposing tax increases of this magnitude at a time of 9 percent unemployment can only mean one of two things: either a new era of economic theory is upon us or the administration wants to dare Republicans to vote against a millionaires' tax being levied to pay for jobs for the rest of us.

If revenue were the real issue, allowing the Bush tax cuts to expire for everyone would theoretically raise far more. Doubling taxes on millionaires, for instance, may only yield \$19 billion in additional revenues. But that would also be politically and economically self-defeating. So it is better to be only economically self-defeating.

It's not clear that this will even raise the anticipated revenues. As the Cato Institute's Daniel J. Mitchell [points out](#), the rich have far greater control of the timing and composition of their income than the rest of us do. IRS data show that people with an adjusted gross income of at least \$1 million rely on salary and wages for just 33 percent of their income. People making more than \$10 million get only 19 percent of their income from salary and wages.

It stands to reason that many of these millionaires will find perfectly legal ways not to pay these taxes. And when they don't, the administration can continue clamoring for the closing of more loopholes and chase after the capital from which the rich do earn most of their income. But capital is important for job and wage growth for the non-rich.

Will this work politically? It's hard to say. When Bill Clinton pretended to raise taxes only on the "top 1 percent" while advertising his expansion of the earned income tax credit as a tax cut for millions of others, few people believed him. The tax hike was a big reason Democrats lost control of Congress in 1994. But Clinton was re-elected two years later and the subsequent Internet boom is often used to vindicate tax increases as sound fiscal policy. (He ultimately signed some broad-based Republican tax cuts into law.)

Higher taxes for the wealthy poll well. That is why Obama frequently emphasized it as part of his "balanced" resolution for the debt ceiling debate and why he is proposing such taxes now. But presidential proposals containing such tax increases have not always polled well themselves.

The cathartic value of higher taxes on the rich is also limited when the economy remains in a shambles afterward. This was one of the lessons of George H.W. Bush's 1990 budget agreement. That's why this gambit may work best for the president if the Republicans thwart him and he is allowed to do his Huey Long impression without any real-world evidence to contradict his politics.

Some people claim that there's a Republican to blame. But according to the Buffett Rule, we know who's damn fault it is