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Shared Sacrifice in the Fiscal Crisis

David Boaz - July 18, 2011

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The [debt ceiling](#) discussion has been full of talk about “shared sacrifice” and a “balanced approach” and proclamations that “we can’t ask for cuts from the vulnerable without getting new revenues from the most fortunate people in our society.” But this is a fundamentally flawed argument.

The main thing our government does these days, despite the lack of any constitutional authority for it, is tax some people and transfer money to other people. Many of us find ourselves on both sides of that process, as much of the federal government today is a vast system of transfers among the middle class. But there is no moral equivalence in the two sides of the transfer system. On the one hand, the government takes money by force from people who have earned it. On the other hand, it gives some of that money to people who have not earned it. Taking yet more money that people have earned is simply not equivalent to reducing the size of a government transfer.

[Currently](#) the top one-tenth of 1 percent of American taxpayers pay 18 percent of the income taxes. The top 1 percent pay 38 percent of the income taxes, and the top 5 percent of taxpayers pay 59 percent of all income taxes. Just what percentage do President Obama and his allies think would be appropriate?

Everybody talks about the return of [Keynesianism](#) these days. We’ve ratcheted up federal spending in a vain attempt to put people back to work. But Lord [Keynes](#) himself [suggested](#) that 25 percent of GDP was the “maximum tolerable proportion” that the government should take. And total government spending in the United States is already around 39 percent and headed up if we don’t make changes. We are creating an unaffordable and economically destructive transfer state.

It’s rhetorically appealing to say that “millionaires and billionaires” should sacrifice to solve our fiscal problem. But the most productive people in our society, the ones who invent new products and bring them to market, manage the businesses that deliver the services we need, allocate capital where it’s most needed, cure our diseases, and in other ways deliver goods and services that we choose to pay for—those people are already paying a top federal income tax rate of 35 percent. On top of that you have to add about 2.4 percent for Medicare taxes, plus an extra 0.9 percent “Medicare surtax” on high earners, plus state taxes that average about 4 percent but can range much higher. It is morally problematic to take so much money from anyone, and taking higher percentages from some people than others adds further moral complications.

We have a spending problem. Government has become too big and too expensive. What Christopher Hitchens [wrote](#) about the financial crisis applies to our whole system today: “Everybody was promised everything, and almost everybody fell for the populist bait.” And now we’re running out of money.

But here’s a way to satisfy both those who see spending as the problem and those who want the highest-taxed Americans to pay yet more: Start cutting subsidies to businesses and the rich. Let’s cut out the big-business subsidy machine, the [Export-Import Bank](#). Let’s get rid of [farm subsidies](#). Let’s tell affluent people who build houses in coastal flood areas to [pay for their own flood insurance](#) at market prices.

Americans aren’t undertaxed. And that certainly includes the most productive people in our society—the ones whom President Obama disparages as “the most fortunate.” We shouldn’t be raising taxes. But as we face up to our overspending problem, we can certainly cut out transfers to the rich along with trimming all the other spending programs that “promised everything to everybody.”

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Robert Hernandez · Crown Point, Indiana

That top 5% who pay 39% of all income taxes do so because they collectively make more than the rest of the 95%. There's a simple correlation here that's ignored in this article. This article also says we shouldn't be raising taxes. The recent tax cuts only are supposed to expire. An expiration of a temporary benefit is not raising taxes, it's keeping a promise - something that's becoming increasingly rare in DC. The tax cuts should expire. The bigger problem is government waste. We're where we are for two reasons: (1) Government Waste (think KBR/Halliburton \$400 hammers and \$200 toilet seats); and (2) the fact that we wasted over 1 trillion dollars (that's one thousand billion dollars) in Iraq. The Bush administration took us to Iraq on what has PROVEN to be false and misleading pretenses. Every major intelligence agency and think tank concluded that there were no WMDs and no connection between Al Qaeda and Saddam Hussein's regime. We need to cut waste, put prisoners to work on civil works projects, and we need to bring some of our money (and troops) back home while at the same time, reducing DoD spending and the influence of the military industrial complex's lobbyist. Oh, and we need to stop going to war to seek revenge for daddy.

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John Hickox · The University of Alabama

Robert is a liar or a fool. The top 5%, who pay 39% of income taxes, earn only about 20% of the income.

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