

---

## Room for Debate: A Running Commentary on the News

« Room for Debate Home

« Back to Discussion

---

### Will Voters Accept Tax Increases?

Obama's budget plan includes taxing the rich; Republicans want to cut Medicare. Which approach is more perilous politically?

## A Sure Way to Lose Re-election

Updated April 13, 2011, 09:53 PM

*Chris Edwards is director of Tax Policy Studies at the Cato Institute.*

President Obama says that he supports a “balanced” plan of tax increases and spending cuts to tackle the government’s huge debt. The problem is that the fiscal mess in Washington is far from balanced.

Politicians have dug a giant debt hole by overspending, not by undertaxing. Federal revenues will rise to the normal level of 18 percent of gross domestic product in coming years as the economy recovers. But spending is expected to explode as a share of gross domestic product to 40 percent from 24 percent within three decades.

---

A 'debt fail-safe trigger' to reduce 'tax expenditures' is just a sneaky way of raising taxes on average families.

That is why House Republicans are focusing on spending cuts. Tax increases stand no chance of passing in the House, but the president keeps on trying. His new plan proposes a “debt fail-safe trigger” to reduce “tax expenditures,” but that is just a sneaky way of raising taxes on average families.

Republicans are open to getting rid of tax expenditures, or loopholes, but they favor the revenue-neutral approach of 1986. That year’s bipartisan tax deal cut special tax breaks, but it used the money to reduce overall tax rates.

The president was on sounder footing calling for a tax code that is “simpler, fairer and not rigged in favor of those who can afford lawyers and accountants to game it.” I agree, but it’s our high tax rates that induce people and companies to hire the lawyers. Obama seemed to get this with his call to reduce our high corporate tax rate.

Yet similar logic escaped him in his call for tax hikes on “millionaires and billionaires.” These people — entrepreneurs, venture capitalists, angel investors and others — are the ones that really drive the American economy. They will move their investments abroad if their taxes go up. The top U.S. income tax rate — including state taxes — is already as high as the average top rate in major industrial countries of 42 percent.

President Obama wants to get reelected, and he will need a strong economy to succeed. Penalizing millionaires won’t help, but partnering with Republicans on corporate tax reforms and spending cuts would boost the economy and his job prospects.

Topics: