Terence Corcoran: Obama's confidence job

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The headlines generated by a new book about Barack Obama paint an unsettling portrait. The President of the United States is said to be indecisive, out of his depth and not up for the job. George W. Bush was routinely caricatured as a dolt, but few would have expected Mr. Obama to be painted with the same brush, although that fact is that any man thrust into the presidency is likely to be out of his depth at some point, especially during an economic crisis where the advice from the economic intelligentsia might seem less than intelligent.

In the book, *Confidence Men: Wall Street, Washington, and the Education of a President*, Pulitzer-Prize-winning author Ron Suskind quotes former economic advisor Larry Summers telling a White House official: "We're home alone. There's no adult in charge. Clinton would never have made these mistakes."

We'll see what *Confidence Men* actually says about these events. There is no doubt, however, that mistakes have been made by the Obama administration — in economic and fiscal policy, in health-care reform, in communications and style. The economy is a mess, the U.S. fiscal situation perilous and the polls are running against him — realities that explain Mr. Obama's explicit move Monday to turn U.S. tax law into a forum for a populist civil war.

In a speech Monday, Mr. Obama declared the war several times as he repeated themes that have been part of his rhetorical ammunition for years. A U.S. tax system that unfairly rewards "multi-millionaires and billionaires" is hoisted as the cause of America's economic problems. To fix it he proposes what he calls a simple principle: "Middle-class families shouldn't pay higher taxes than millionaires and billionaires."

"This is not class warfare," said Mr. Obama. "It's math." If Mr. Suskind ever gets around to writing a sequel to *Confidence Men*, a whole new chapter would have to explain how the President came to utter such a preposterous denial of the obvious. The inside joke around the White House must be: What a con job.

In U.S. politics, as in other nations, failures of governance can often be overcome by mounting a demagogic class war. The rich and the presumed rich can be made scapegoats, their wealth exaggerated, their guilt and greed exploited, all the more easily when one of the richest men in America, Warren Buffett, is the main motivator for the class-war initiative.

In his formal plan for reducing the U.S. deficit, Mr. Obama refers to the Buffett Rule — that people making more than US$1-million a year should not pay a smaller share of their income in taxes than middle-class families pay. Mr. Buffett, controlling shareholder of Berkshire Hathaway, has been pushing his idea that the rich should pay more taxes for several years.

In 2007, he wrote in a *New York Times* oped: “Last year my federal tax bill — the income tax I paid, as well as payroll taxes paid by me and on my behalf — was US$6,938,744. That sounds like a lot of money. But what I paid was only 17.4% of my taxable income, and that’s actually a lower percentage than was paid by any of the other 20 people in our office. Their tax burdens ranged from 33% to 41% and averaged 36%.”

This grossly distorts Mr. Buffett’s own tax situation, and U.S. tax law — as the Cato Institute’s Alan Reynolds notes in the commentary elsewhere on this page. Missing from Mr. Buffett’s tax confession is that most of his income (aside from US$100,000) is dividends that come from corporate profits that have already taxed as income. By asking for higher taxes on investment income, Mr. Buffett is proposing double taxation of corporate income.

Mr. Obama’s class-warfare initiative will never make it through Congress, and he knows it. What he wants is a class-warfare platform for the 2012 election, a useful diversion from the failure of Obamanomics and a distraction from the real issues.

The Buffett Rule itself would generate tiny amounts of money relative to the trillions needed to bring U.S. budgets under control. It would, however, unhinge investment incentives. As Mr. Reynolds notes, raising taxes on investment income serves to discourage investment and reduce total investment income across the economy.

Ira Stoll, writing in the October issue of *Commentary* magazine, sees what he calls “The Buffett Tax Gambit” as an attempt to redirect U.S. fiscal policy discussion. By shifting the ground and creating “a debate over whether the ‘super-rich’ should pay more, Buffett and his allies in politics and the press avoid certain other questions.”

Among those other questions: “Who should allocate capital, the people who earned it and own it, or the politicians in Washington as influenced by their lobbyists and campaign contributor cronies? How did we accumulate US$14-trillion in debt so rapidly, and what are the consequences of that? How and why has federal spending grown to US$3.8-trillion in 2011 from US$1.8-trillion in 2000?”

Polls seem to show opinion favours taxing the rich. They always have. But will that blind voters to the larger realities of Obamanomics next November?