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# Tax Hikes On Top Earners Won't Pay For Safety Net

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As Occupy Wall Street turns its focus to D.C. this week, its long-term agenda seems to be higher taxes for the top 1% and firmer government support for everyone else.

If so, then what the protesters want — even if they aren't saying it and almost certainly don't even realize it — is higher taxes for the 99%.

America's progressive income tax system is not particularly well-suited to financing an expansive safety net. And that would remain true even if the income tax becomes a whole lot more progressive with Senate Democrats' plan to slap a surtax on income more than $1 million.

Just look at what you can — or can't — pay for with this so-called millionaire's tax and a reversal of the Bush top-earner tax cuts.

Senate Democrats' initial bill would slap a 5.6-percent age point millionaire surtax, raising $453 billion over a decade. Their latest proposal would impose a 1.9-point surtax over 10 years to pay for just one year of extended and expanded payroll tax cuts along with infrastructure spending and emergency jobless benefits.

Meanwhile, the pre-Bush top rate of 39.6% is set to return in 2013 along with a 3.8% Medicare tax, part of which Democrats imposed to pay for the Affordable Care Act (aka ObamaCare). Add in the 1.9 point surtax and the top marginal income tax rate would skyrocket to 45.3% — before state income taxes.

Still, the nation could face an $800 billion deficit at decade's end. That math reflects the Congressional Budget Office analysis of President Obama's 2012 budget — minus $300 billion in presumed annual budget cuts from the summer's debt-ceiling deal.

To be sure, the Occupy movement is focused on the present jobs crisis, not the intermediate-term need to make the government fiscally sustainable. This week's D.C. activities are timed to raise a ruckus on behalf of Democratic stimulus efforts. But the math explains the limits of the group's ill-defined agenda.

"The only way you're going to get enough money to fund a giant entitlement state is if you have a broad-based, middle-class tax hike like a VAT (value-added tax)," said tax policy specialist Chris Edwards of the libertarian Cato Institute .

That reality, Edwards said, was widely acknowledged by the politically diverse deficit panel he served on under the National Academy of Social Insurance.

The conclusion also is shared by liberal economist Paul Krugman. In a November 2010 blog post for the New York Times, Krugman acknowledged that sales taxes are regressive, but he nevertheless defended the Domenici-Rivlin deficit panel vs. liberals who criticized its proposal for a 6.5% national sales tax.

"It does seem that countries with strong welfare states have less progressive tax systems than those with weak safety nets," Krugman wrote. "Because we don't have a national sales tax, politics ends up being about tax brackets, which in the end can't do much to reduce inequality."

The obvious counterpoint to the U.S. is Europe, where double-digit VATs are the norm.

Critics of high taxes can, of course, cite the euro zone's sovereign woes and argue that big government's flaws are being exposed.

But some high-tax countries such as Germany, Norway and Luxembourg have fared relatively well over the past few years.

To the extent that high-tax countries can thrive, economists credit a regressive tax system and reliance on consumption taxes that don't erode incentives to work.

"It is (Europe's) social democratic states that have the most regressive taxes and the liberal U.S. that has the most progressive taxes," wrote Northwestern University economists Monica Prasad and Yingying Deng in a 2009 paper, "Taxation and the Worlds of Welfare."