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## Obama vs. Mathematics

Health care plus entitlements plus higher taxes only on the “rich” equals disaster.

By Jagadeesh Gokhale & Kent Smetters

**E**ven a popular president like Barack Obama cannot win arguments against two forces: God and mathematics. While the president has openly shared his reverence for the former, he has decided to take on the latter. It’s a fight that he will lose.

Upon taking office, President Obama decided to postpone his campaign promise to implement a true cost-saving reform of Social Security and Medicare. Instead, he’s trying to *expand* the nation’s entitlement offerings with massive new government spending on health care.

The Congressional Budget Office’s mid-July “score” of the main House health-care bill puts the price tag at about \$1 trillion over the next decade; the Blue Dog Democrats managed to shave off only about \$100 billion. But ten-year budgets, as even the CBO has warned in the past, are not reliable for assessing entitlement programs. Most of the spending in the House plan is phased in over several years, making the ten-year cost look deceptively small. Extending the budget window by just three years doubles the program’s cost to over \$2 trillion.

And that’s just a start. The most comprehensive view of a program’s projected shortfall comes from calculating the present value of *all* of its future outlays and subtracting any new revenue sources. The House plan has a present-value shortfall of \$13.6 trillion. That’s the amount of *additional* money that must be set aside, in today’s dollars, to put this program on a sustainable course. This estimate optimistically assumes that health-care costs will eventually grow with the general inflation rate (they’re currently growing much faster).

This enormous shortfall is equal to about 1.6 percent of all future projected GDP, or 3.5 percent of all future payrolls subject to Social Security taxes. From those numbers, this additional burden might actually seem manageable. But President Obama promised that he would raise taxes only on those in “rich” households.

That’s where the arithmetic gets especially interesting. Funding the new health-care plan on the backs of households making \$200,000 or more per year would require permanently increasing their annual total tax payments by about 50 percent. So, for example, a household that currently pays \$50,000 in federal income taxes would need to pay another \$25,000. Remember, however, that Social Security and Medicare already face enormous shortfalls. Shoring up these programs — another Obama campaign promise — would require collecting 328 percent more tax revenue from the rich. No, we didn’t forget a decimal point: That is three hundred and twenty-eight percent.

Most households making between \$200,000 and \$500,000 per year would not have enough money to pay their federal, state, and local tax bills, much less eat. Rich households in California or New York would not be able to pay their tax bills regardless of their incomes. And a family of four living in a low-tax state (South Dakota) would need to gross almost \$900,000 per year to have enough income left over to reach the poverty line. In fact, there is no mathematical configuration of taxes on the current rich alone — including additional levies on the “super-rich” making more than \$1 million per year — that is compatible with putting the nation’s entitlement programs and the new health-care plan on a sustainable course.

U.S. federal income taxes are already very progressive. The top 10 percent of income earners pay the majority of federal income taxes. The top 1 percent of income earners pay a quarter of all taxes.

But can’t we expect the rich to pay even more? Maybe for a few years — but not without disastrous consequences to America’s future.

A major tax increase causes the tax capacity of the rich to shrink gradually as two factors kick in. First, many of the households falling into Obama’s “rich” definition are married couples in which both partners are working professionals. When tax rates rise, the lower-earning spouses in these couples tend to work less. Often, they quit work entirely. Second, many of the “rich” are budding entrepreneurs and small-business owners. They finance their operations using their own after-tax income, or with after-tax resources from family and friends. Small-business innovation is the fuel for long-term economic growth. In fact, many of the largest companies in the United States today were either small or nonexistent just 25 years ago. Killing small business kills the American economy.

We cannot allow federal health-care subsidies — mainly Medicare and Medicaid — to continue to grow faster than inflation indefinitely. The challenge is to find ways to make the nation’s commitments to retirees and others sustainable without harming economic growth prospects. In this regard, the Obama administration is charting a course in the wrong direction — expanding entitlements on the backs of our nation’s job creators. The math will work against the Obama administration and, eventually, against us all.

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