

10/07/2011

Jeffrey A. Miron

Who Should Bear the Burden of America's Debts?

President Obama's solution to America's deficit woes is to make the rich pay higher taxes. Using Warren Buffet as his prop, the President has repeatedly asserted that we must not balance the budget on the backs of the neediest, but instead make the rich pay their "fair" share.

The President's perspective is misguided at every level.

The biggest source of our long-term fiscal imbalance is Medicare, a program that benefits middle- and upper-income households. The poor receive health insurance from Medicaid, which is not the prime target of budget balancers.

In contrast to Buffet's view that the rich pay less in federal taxes than the middle class, the facts show otherwise. According to the Tax Policy Center, the top 1% of the income distribution pays 30.4% of its income in federal taxes while the middle fifth pays 14.1%. That may be less redistribution than Obama and Buffet would like, but it is hardly the perverse pattern that Buffet asserts.

Buffet's own situation – he claims to pay less in taxes as a share of his income than his secretary – is the exception, not the rule. Buffet presumably gets a large fraction of his income from ownership of capital, much of which he invests in tax-free municipal bonds. Most high-income earners, however, get a substantial share of their income in salary, which faces a marginal tax rate of 35%.

In any case, the soak-the-rich approach would do little to improve the long-term fiscal outlook, which stems mainly from the excessive growth rate of Medicare expenditure. Higher rates on the rich discourage savings and entrepreneurship, and they might even exacerbate deficits by encouraging income in non-taxed kinds of compensation or pushing investments overseas.

Jacking up tax rates also ignores the myriad ways that policy can raise revenue while enhancing, rather than harming, economic productivity (e.g., elimination of the home mortgage interest deduction). Similarly, the focus on tax rates detracts attention from policies that advantage the rich by restricting competition, enabling crony capitalism, or handing large tax breaks to politically connected interest groups. The way to address

these inequities is to repeal the policies that promote them – which are themselves undesirable for multiple reasons – rather than targeting all high-income taxpayers.

The only possible defense of the Obama-Buffer perspective is that higher tax rates on the rich are necessary to convince middle- and lower-income taxpayers that significant cuts in Medicare and Social Security are necessary to achieve long-term fiscal balance.

But if Obama and Buffet want to achieve this grand bargain, they have to put real expenditure cuts on the table. Otherwise, voters will see their rhetoric as political posturing, not as a sincere attempt at compromise.

Photo Credit: [Wikimedia Commons](#)