

## **Obama's Class Warfare**

**He's launching a new era of tax and spend.**

Michael Tanner

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The American economy is finally coming back, after one of the slowest post-recession recoveries in recent history. So naturally President Obama has decided that what we really need now is a return to the era of tax and spend. Oh, and of course, a healthy batch of class warfare too.

The president wants to junk the sequester caps that have been largely responsible for reducing our estimated deficit from \$1 trillion a year to a more manageable but still sizable \$469 billion this year. He would increase discretionary spending for next year by \$68 billion above the spending caps enacted in 2011, with the increases roughly split between defense and non-defense spending. If these increases are enacted, discretionary spending would increase roughly 7 percent from this year to next, compared with average growth of 4 percent from 2004 to 2013.

The president would pay for his spending spree with a massive tax hike on small businesses and capital investment. The tax hike would cost Americans \$320 billion over ten years, including higher taxes on capital gains, banks' assets, and financial transactions. He would also end the tax deductibility of earnings in the highly popular 529 College Plans.

That capital-gains increase, by the way, would give America a higher capital-gains tax rate than such competitors as Canada, Greece, Norway, and Spain. If you include the state capital-gains taxes in 42 states, we would also be higher than Sweden and Finland. And, of course, countries such as South Korea, the Netherlands, and New Zealand have no capital-gains tax at all.

Meanwhile, the bank tax would almost certainly hit small community banks hardest and would make it harder for small businesses and start-ups to obtain loans. And the new tax on 529 Plans

would sock it to those middle-class families that try to save for their children's educations rather than rely on government largesse.

These new taxes would be in addition to a whole new batch of indirect taxes or business mandates that the president is calling for. For example, the president wants businesses to provide paid sick leave and "parental leave" (it's not just maternity leave any more). And to place the new mandates in context, let's not forget that this is the year that Obamacare's employer mandate begins to phase in.

Speaking of context, remember as well that the president's new tax hikes would come on top of nearly \$2 trillion in tax increases that he pushed through during his first six years in office.

The president does call for some middle-class tax cuts, and some of the proposed cuts may well be worth exploring. But while the media have portrayed them as the flip side of the president's tax hikes on "the wealthy," they actually would total just \$175 billion over the next ten years, barely more than half of the tax hikes that the president wants. Taken together, the package is not tax reform — it's a tax hike.

Of course that won't prevent the president, with media complicity, from selling this as a matter of fairness — of making the rich pay their fair share, reducing inequality, and rewarding the middle class.

He ignores the fact that America already has one of the most progressive tax systems in the industrialized world, far more so than most countries in Europe, which rely heavily on regressive value-added taxes. In fact, taxes in the U.S. are more progressive than in such countries as Belgium, Britain, Canada, Spain, and even Sweden.

The top 1 percent of Americans, for instance, earned 14.6 percent of the national income but paid 24 percent of total federal taxes in 2011.

If you consider government payouts as well, our current system looks even more redistributive. For example, according to the Congressional Budget Office, the bottom three income quintiles of American households receive more from the government in terms of benefits than they pay in taxes. The second highest quintile pays slightly more in taxes (about \$700) than it receives in benefits, but the top quintile pays a whopping \$46,500 on average more than it receives.

Even if you accept the dubious premise that we have a problem with inequality in this country, it's not because we don't tax and spend enough.

Of course, few if any of the president's initiatives are likely to make it through a Republican-controlled Congress. But then this is less about legislating than about politics. Democrats are counting on riding the class-warfare horse to victory in 2016.

That may or may not turn out to be good politics, but it is likely to be very bad policy.

— *Michael Tanner is a senior fellow at the Cato Institute and the author of Leviathan on the Right: How Big-Government Conservatism Brought Down the Republican Revolution.*