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Obama's new plan is a rehash of old one

By James Harrigan, Utah State University and Antony Davies, Duquesne University - 10/29/12 03:00 PM ET

With less than two weeks until the election, President Obama has finally released his second term economic plan. His 11-page booklet, *The New Economic Patriotism: A Plan for Jobs and Middle Class Security*, at once manages to use every campaign buzzword and to answer Mitt Romney's criticism that there is not, and has never been, a coherent Obama economic plan.

The centerpiece is "a tax plan that cuts the deficit and creates jobs." The campaign rhetoric is familiar. The middle class will see tax cuts, and the "wealthiest" will be asked to "do their fair share." All this needs to happen in order to achieve Obama's goal of cutting \$4 trillion from the deficit.

Not surprisingly, we are back to class warfare. But when it comes to taxes, class warfare presents a problem.

According to the Urban-Brookings Tax Policy Center, the Bush tax cuts provide \$2,000 in annual savings to 96% of middle-income households. Obama himself claims to have saved "the typical American family" \$3,600 in taxes over the last four years. Obama needs to walk a very fine line presenting a plan that makes the rich pay shoulder the burden while leaving the middle class alone.

Obama has made a lot of noise about the Bush tax cuts, but the devil is in the mathematical details. In August 2012, the Congressional Budget Office (CBO) projected that allowing the Bush tax cuts to expire would increase tax revenue by \$225 billion in 2013. And that's if the tax cuts were eliminated across the board, not just for the wealthy.

Only in Washington, though, could an applicant for a four-year position present a ten-year plan, and that is exactly what Obama has done. The \$4 trillion savings is spread out over the next two and a half presidential administrations. But to balance the budget, we need \$1 trillion now. We have, after all, had \$1 trillion deficits over each of the last four years.

If we were serious about balancing the budget by raising taxes, we'd need to raise \$1 trillion next year. Here's the problem: There is no way to raise \$1 trillion in additional taxes in one year without either asking the top 5 percent to pay almost all of the income taxes, or to almost double taxes on everyone down to the middle-class.

According to the latest CBO figures, households earning \$250,000 or more pay an average effective federal income tax rate of 15% to 20%. Households earning under \$250,000 pay an average effective rate of negative 10% to 10%. These are effective rates, meaning this is what you get after people perform the legal and accounting gymnastics they are legally allowed to reduce their tax bill.

To raise \$1 trillion this year, we would have to triple taxes on the over-\$250,000 crowd to as high as 50%. Even back in the 1960s when the top marginal income tax rate was 92%, the few people who were in that tax bracket paid an average effective rate of about 50%.

Of course, you could try and spread that burden by doubling everyone's taxes starting with the top 1% and working down. But then we would have to double taxes on the top 20% of households to hit the \$1 trillion goal. That would be every household earning \$140,000 or more. And if doubling tax rates seems too extreme, we could raise tax rates by "only" 75 percent, but we'd have to do that for everyone from the middle-class on up.

The moral of the story is that the laws of mathematics are now doing what the art of politics has been unable to do. They are telling us that enough is enough. Class warfare might sway a few votes, but it will never solve our budget problem. The only thing that will is discipline. That is in short supply at the height of campaign season. And in Washington, it is always campaign season.

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