ISSUES IN PERSPECTIVE

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The Buffet Tax: Evidence of a Lack of Leadership

Since World War II, the federal government has been distributing more benefits to more people without mandating higher taxes. The result is a welfare state with ever-growing dependency on the government—at all levels. As public policy, this formula is now bankrupt—and will soon result in the bankruptcy of this nation. As the economist Robert Samuelson has demonstrated, "From 1960 to 2012, the share of federal spending going for 'payments to individuals' (Social Security, food stamps, Medicare and the like) climbed from 26% to 66%. Meanwhile, the tax burden barely budged. In 1960, federal taxes were 17.8% of national income (gross domestic product). In 2007, they were 18.5%." Further, the favorable arithmetic of reduced military spending and solid economic growth has evaporated and a new reality is facing America: slower economic growth, an aging population and higher health care costs.

With the reality of gargantuan deficits facing this nation, what does our president propose? It appears that his first step in solving this enormous systemic challenge for America is the so-called Buffet tax or the so-called Buffett Rule. Simply put, the proposal would be for millionaires to pay a 30% tax rate on all income—the rate of income tax paid by Warren Buffett's secretary. This is not a silly proposal but what does it actually mean? What effect would this actually have on revenue for the federal government? Several comments:

- According to the Congressional Budget Office, the deficit of the US government will rise by an additional $8.5 trillion over the next ten years. The nonpartisan Tax Foundation estimates that a Buffett Tax would raise about $40 billion annually. Citizens for Tax Justice, a liberal policy group, estimates it to be $50 billion. Assuming strong economic growth over ten years, that tax change could net between $600 to $700 billion for the federal government. This would help a little but it would hardly solve the enormous debt burden of this nation. As Warren Buffet declared, "The purpose of the Buffett Rule is not to close the deficit gap."

- As Samuelson has shown, it is a seriously dishonest to argue that the ultra-rich enjoy low tax rates. In 2007, the richest 1% of taxpayers paid an average tax rate of 29.5% and provided 28.1 % of federal revenues. On their wages and salaries, many of the ultra-rich pay the top income tax rate of 35% plus a Medicare tax of 1.45%.

- Who are the top 1% of wealthy people in the US: Samuelson shows that this 1% group includes executives in nonfinancial companies (30%); doctors (14%); professionals in finance [hedge funds, banks, pension funds] (13%); lawyers (8%); computer experts and engineers (4%); sales workers (4%); entertainment and media stars (2%); and the other 25% include farmers, management consultants, real estate developers and scientists.

The Buffett Tax is pure politics, not leadership. It is populist rhetoric that appears simple and just but is neither. It solves nothing in terms of our systemic problems as a nation and inflames the leftwing radicalism of the Occupy Wall Street movement. President Obama is pandering to the left and trying to awaken a ground swell of support that he currently lacks. The easy demagoguery of "tax the rich" has returned and it is being led by the president of the United States—the man who said he would bring us together.

What then should be done? The leader of this nation should energize the American people around two grand themes: First, eliminate the grossly unfair tax loopholes that exist in one of the most complicated tax systems in the world. Meaningful tax reform is desperately needed and, in my judgment, the President should be talking about this, not one tax change! Secondly, the President should be focusing on entitlement reform. The major reason our debt burden is swelling in an uncontrollable manner is entitlements. We simply cannot afford the present Social Security system, Medicare, Medicaid and now the health care burden Obama has placed on the federal government. President Obama cannot run on his domestic policy achievements—because he has none. His health care legislation is significantly unpopular and his regulatory reforms are stifling and harming small businesses. Since he cannot run on domestic achievements, he is choosing demagoguery and what is often called "class warfare." The columnist Charles Krauthammer has observed that a vision for the future that centers on tax reform and entitlement reform is something the American people will accept and embrace: "[Tax reform] produces social equity plus economic efficiency; [entitlement reform] produces social equity plus debt reduction." The President's political posturing centered on the Buffet Tax solves nothing, inflames the leftwing and fosters a divisiveness that we have not seen since the 1960s.

One final thought: Elizabeth Warren is running as a Democratic candidate for the seat once held by Edward Kennedy in Massachusetts. She is trying to unseat Republican Senator Scott Brown. An articulate and gifted speaker, Warren has argued for the social responsibility of successful entrepreneurs: "You build a factory out there—good for you! But I want to be clear. You moved your goods to market on the roads the rest of us paid for. You hired workers the rest of us paid to educate. . . Now look, you built a factory and turned it into something terrific or a great idea—God bless. Keep a big hunk of it. But part of the underlying social contract is you take a hunk of that and pay forward for the next kid who comes along." Warren does indeed remind us of the indebtedness we owe to others. Often the Tea Party seems to be fueling a cult of the heroic individual, without any sense of community. But Warren's thesis is deeply flawed. As *Christianity Today* (CT) editorially observed, "She fails to include essential nongovernmental institutions [in her analysis.] Where are the families, churches, independent schools, hospitals, service clubs, and trade and professional organizations, as well as the free press? Warren commits the besetting sin of secular progressivism: reducing the complex workings of society to the actions of government—in her formulation, 'what the rest of us paid for.'" If the employees of a business behave ethically, demonstrate convictions of right and wrong and live it and if they do not lie or cheat their employers, this probably testifies to the virtuous influence of pastors and parents—not the government. Humans are indeed indebted to the state for all it does. But we are actually indebted more to mediating institutions for doing that which the state cannot do—ethical modeling, virtuous living and knowing what is right and wrong. As *CT* argues: "We can only invite her to supplement a keen awareness of what belongs to Caesar with deeper reflection on what belongs to God—and to the institutions He entrusts with governing a fallen and fractured creation." God has stipulated that the role of government is fundamentally to promote justice and thwart evil. Moral and ethical instruction and modeling belong to parents and the schools.

The inadequate and faulty simplicity of Elizabeth Warren's thesis that leftwing government is the solution to everything meshes perfectly with the bankrupt simplicity of President Obama's Buffet Rule. Both evidence a populist rhetoric that incites and inflames but solves nothing. The tired rhetoric of leftwing solutions is once again on center stage in America politics. Given that reality, it is difficult to be optimistic that this nation will ever solve its debt crisis. Higher taxes on 1% of our population without concomitant tax reform will solve nothing. Higher taxes on 1% of our population without significant entitlement reform will solve nothing. President Obama is not leading this nation; he is fostering deeper and more incendiary social divisions. May God in His mercy deliver us from this kind of demagoguery.

See *Christianity Today* (December 2011), p. 53; Charles Krauthammer in the *Washington Post* (27 January 2012); and Robert Samuelson in *ibid*. (30 January 2012 and 3 January 2012).