

Election 2012: Taxes

Michael Sean Winters | Oct. 22, 2012 Distinctly Catholic

One of the principal differences between the two presidential candidates is their approach to tax policy. Mr. Romney has signed Grover Norquist's pledge to never raise taxes and Mr. Obama has consistently supported allowing the Bush tax cuts on those making more than \$250,000 per year to expire. Tonight's debate will focus on foreign policy, and there are not very many differences between the two candidates on actual policies abroad, so I do not expect any questions on tax policy. It is a shame: The solvency of the government is part of the foundation of our standing in the world.

Mr. Romney has drunk the supply side kool-aid that thinks if you lower marginal tax rates for the very rich, presto, the economy will boom, and not just boom, but boom enough to offset the loss in tax revenue. If this were true, the Bush years should have been an economic bonanza and the Clinton years a nightmare: The reverse was true. I do not believe that taxes played the central part in the economic drama of the 1990s — the economic growth of the Clinton years was mostly due to the increases in productivity brought on by the Internet. The Bush years suffered from a host of other uncertainties and the end of the dot.com bubble. Taxes have a marginal effect.

The Romney tax cuts should be opposed because they will not deliver what they promise and, just as importantly, because they are not fair. In the past thirty years, almost all the increase in wealth has gone to the top ten percent. Median wages have stayed steady only because the rest of us, and most especially the poorest Americans, have worked more hours. Income inequality is bad and the inequality of wealth is exponentially larger than it was thirty years ago. Pro-family Republicans have a lot of explaining to do about how the need to work more hours to maintain family income has affected most American families.

There is a deeper problem with the Romney tax cuts. They are political candy. The main challenge with taxes is that we Americans want more government than we are willing to pay for, but our politicians keep promising "no pain, no gain" solutions. [George Will addressed this fact in his column](#) [1] yesterday but, of course, Will comes to the wrong conclusions, namely, we must cut government. Mind you, I am sure that with some sustained attention, there could be some cuts in government programs. It has been almost twenty years since Al Gore's "reinventing government" program secured billions in savings, and while much of those savings came from applying new technologies, it is also the case that any complex enterprise develops programs and policies that it no longer needs, or methods of operation that can be improved, etc. If this administration has been engaged in any of that, it would be news to the rest of us.

Fundamentally, however, the real costs of government are entitlement programs, the military and servicing the debt. I do not believe that there should be any cuts to entitlements that are not achieved by lowering the rise in health care costs generally. I support a robust military, but am sure there is as much bloat at the Pentagon as in any other government bureaucracy. The key place to look for savings is by reducing the amount of money spent servicing the debt, but that means we have to actually close our annual deficit spending and earn a surplus.

In Germany, they have what is called a "Solidarity Tax." It is a surcharge on taxes of 5.5% on top of one's income tax bill, so it shares in the progressivity of the income tax rates, costing the wealthy more and the poor

nothing at all. (Of course, in Germany, because their version of capitalism is a whole lot less spread eagle than ours, they have far fewer people living in poverty!) Would it not be refreshing to hear one of the candidates propose a ?Debt Reduction Solidarity Tax,? designed simply to close the gap in the federal budget, and to shrink when the country balances its books and be eliminated when, and if, it ever eliminates the debt. Economic growth is still a bit anemic, so this may not be the right time to introduce such a surtax, but if unemployment gets to 5% or economic growth gets to 3%, the solidarity tax could take affect. It could start at 1% and increase to five percent over five years, to ameliorate any dislocation.

The tax code has been put to many purposes, which is one reason why it is so byzantine and cumbersome. It is stunning to me that Democrats have not long since seized on the issue of tax reform and have, in this election, ceded that ground to the Republicans. Cutting special tax loopholes, which were secured by lobbyists and are harvested by lawyers and accountants, has a natural populist ring to it. The issue also helps keep the focus on the fairness of the tax code, or lack thereof, which is the only way that taxes plays as a winning issue for the Democrats.

President Obama has been a great disappointment to progressives on taxes. In part, he listens overmuch to Wall Street and their minions within his administration. In part, he has proven really bad at sustaining any kind of narrative to justify his policies, from health care to foreign policy to taxes. And, to be fair, he was dealt a really cruddy economic hand.

Still, one thing is certain. Obama may not be good on taxes, but Romney would be dreadful. The rich would get richer, the economic stratification of our society would increase, and the government?s finances would be just as precarious as they are now. Economic growth is the only way out of this mess, to be sure, but as we climb out of it, we need the next president to revise the tax code in this country in a way that provides for long-term fiscal stability. That, alas, is unlikely to happen no matter who wins.

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[1] http://www.washingtonpost.com/opinions/george-will-seeds-of-our-dysfunction/2012/10/19/1222cbca-1a0a-11e2-aa6f-3b636fecb829_story.html