



No Populists in Sight in the World of Politics

In the grand ballroom of American politics, Democrats have long waltzed to the melody of progressivism while ridiculing Republicans' preference for outdated tax-cut tunes. Ironically, they don't want to pay for their style of big government with higher taxes on ordinary Americans, which their expansionary ambitions would require. Instead, they loudly proclaim that they want to tax the rich. It remains to be seen how true this is.



Veronique de Rugy

Indeed, while Democrats profess their devotion to social justice and fight against income inequality, they often push for policies that favor the rich. Take their nonstop battle over the last five years to ease the tax burden of their high-income constituents.

The State and Local Tax (SALT) deduction cap, part of the 2017 Tax Cuts and Jobs Act (TCJA), placed a \$10,000 limit on the amount of state and local taxes that can be deducted from federal taxable income. This move predominantly affected high earners in high-tax states like New York, California and many others that are Democratic strongholds.

That's a tax hike on the rich. This shouldn't bother Democrats, who are usually happy to demonstrate their egalitarian chops by clamoring for that very thing. Yet this time, by demanding repeal of the SALT cap, they are on the front lines of a battle to restore tax breaks for the rich. As it turns out, when affluent Californians and Northeasterners felt the pinch, Democrats were ready to cha-cha for tax relief.

Contrast this with the refusal by moderate New York House Republicans to vote for Ohio Republican Jim Jordan for speaker in exchange for doubling the deduction cap to \$20,000 for individuals and \$40,000 for married couples. Now, this might mean these guys really didn't want Jordan as speaker, but they wouldn't roll over even in exchange for tax cuts for their own constituencies.

Would New York Democrats be so principled? Back in 2021, 17 of 19 members of this delegation threatened to block a Democrat-sponsored infrastructure bill if the SALT deduction cap wasn't entirely repealed. I would have been OK with that crony bill failing; I highlight this incident only to reveal some Democrats' commitment to tax breaks for rich blue-state voters.

Add to this the fact that big government tends to work out well for people with big bank accounts. Billions of dollars in tax credits and subsidies have gone de facto to high-income taxpayers to buy expensive electric cars, or to large, well-connected companies to build green infrastructure or semiconductors they would have produced anyway.

For all the populist huffing and puffing, many big-government policies squarely hurt middle-class and poorer Americans. A good example is Democrats' starring role in Congress' refusal to reform insolvent



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entitlement spending. It amounts to supporting an enormous transfer of money, through regressive payroll taxes, from the young and poor to the old and rich.

Even Democrats' support for raising the corporate income tax rate from its current 21% to 25% is inconsistent with their populist self-identification. As economists have long known, most, if not all, of the economic burden of corporate income taxes is shouldered by primarily middle-class workers in the form of lower wages. It's wrong to call this a tax on the rich.

There are other instances in which Democrats balk at the notion of raising taxes or even, in Republican-like fashion, support tax cuts. In 2010, they heralded the passage of the Affordable Care Act. However, one key funding mechanism was a 2.3% excise tax on medical devices.

Many Democrats eventually joined Republicans in calling for this tax's repeal, citing the potential negative impact on the medical device industry. By 2015, even liberal stalwarts like Sen. Elizabeth Warren were advocating to suspend the tax. It was permanently repealed in 2019 as part of a year-end spending package.

In 2011, Democrats, led by then-President Barack Obama, pushed for an extension of the payroll tax cut, a policy that provided relief to millions of working families. While this move aligned with their commitment to supporting the middle class, it marked another significant departure from their traditional stance on tax cuts, showing a willingness to embrace tax relief when politically expedient.

Soon, Congress must debate the sunset of the TCJA's tax-relief provisions in 2025, which are scheduled to raise taxes by roughly \$3 trillion over a 10-year period. It will be entertaining to watch Democrats extend a vast majority of these policies, including some for the benefit of very well-off Americans, while continuing to blame former President Donald Trump's tax cuts for raising the deficit.

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