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Correction, Please!

The Contrived Fight Against "Inequality"

Item: *After the moderator on the CBS show* Face the Nation *interviewed Democratic presidential candidate Bernie San-ders, an avowed democratic socialist, a panel discussed those who were criticizing Sanders for wanting to impose socialism. On the March 31 show,* New York Times *columnist and CBS News political analyst Jamelle Bouie, a panelist, pooh-poohed the notion that the Vermont senator sought a radically transformed country.*

Argued Bouie: "It's not as if Bernie Sanders is calling for like, you know, democratic control of means of production, right?" He is not seeking, said the panelist, "nationalization when it comes to the state industries." Rather, he maintained, Sanders is "calling for a very, very robust welfare state, for more Medicare, for free college, for these sorts of things … things that are broadly popular with the public."

Item: *Several "top-tier Democratic presidential candidates," reported the* Washington Post *for February 2, "are pushing for new taxes on the wealthiest Americans and attempting to portray themselves as best positioned to fight the country's yawning inequality gap." Mentioned were soak-the-rich plans by Senators Elizabeth Warren, Kamala Harris, and Bernie Sanders.*

Warren often links her proposed wealth tax to the alleged need to fight "inequality." She is apparently duking it out against all sorts of inequality, to include "racial," "gender," "pay," "economic," and "wealth."

Item: *An article entitled "Who's Afraid of the Budget Deficit?" appears in the March/April 2019 issue of* Foreign Affairs *magazine, the publication of the establishment's Council on Foreign Relations. Subtitled "How Washington Should End Its Debt Obsession," the piece was written by two CFR members — Jason Furman and Lawrence Summers.*

Furman is an economic policy professor at the Harvard Kennedy School of Government; he served as the chairman of the Obama White House Council of Economic Advisers from 2013 to 2017. Summers is a professor of economics at Harvard University; he served, among other posts, as U.S. secretary of the treasury during the Clinton administration and as director of the National Economic Council under Barack Obama.

The writers stress that they are not particularly worried about mounting government deficits, the skyrocketing national debt, or ever-rising entitlements expenditures; on the other hand, they are fans of much more government spending and higher taxation to target "inequality."

Correction: Bernie Sanders admits he is a socialist, while most other leading Democrat presidential candidates merely support and promote socialist programs.

Elizabeth Warren, for example, calls herself a capitalist who wants to "fix" capitalism. A friendly column by David Leonhardt in the *New York Times* (March 15) pats her on the back, saying Warren "comfortably explains that she is not socialist. She is a capitalist and, like Franklin D. Roosevelt, is trying to save American capitalism from its own excesses."

(New President Roosevelt, it should be recalled, filled his administration with progressives and socialists of the day and "lifted ideas" from Socialist Party leader Norman Thomas.)

As the various ideologically similar statist candidates for 2020 try to distinguish themselves for voters, one of the major issues they all echo is the wickedness of "inequality." Keep in mind that the principle underscored is not preserving or improving equality in the eyes of the law, but rather a push for "equality" in results. (Tellingly, there is plenty of "equality" in Cuba, North Korea, and Venezuela, for instance — not counting, that is, the dictating political elite.)

Here's the actual American ideal: We are created equal. Our goal, not an easy one, is to grow out of it.

Unfortunately, each American child born today inherits a share of the national debt amounting to $67,000. And that national debt is growing daily in a stomach-twisting fashion, rising from $10 trillion when Barack Obama was elected in 2008 (about 68 percent of the national economy) to well over $22 trillion now (around 106 percent of the GDP).

That's what happens when you spend money that you don't have, much of it in violation of the tenets of the Constitution. Sadly, such spending gets defended by those who should know better. Consider the lengthy *Foreign Affairs* article cited above. Therein, Furman and Summers blast those who are supposedly "fixated on cutting spending, especially on entitlement programs such as Social Security and Medicaid. That is a mistake. Politicians and policymakers should focus on urgent social problems, not deficits."

But deficits have to be paid for. As noted by Gerald Seib of the *Wall Street Journal* (February 19), the federal government has to pay

interest [on its debt]; that's not optional. And as more of the federal budget goes to interest payments, less money is available for other government programs: infrastructure, schools, social benefits.

This interest expense is going to keep rising as the debt keeps piling up. The Committee for a Responsible Federal Budget, a nonpartisan watchdog group, says annual interest payments will nearly triple to $928 billion by 2029, from $325 billion last year. The federal government, it says, will spend more on interest than on Medicaid or on children by next year. By 2024, interest payments will match military spending.

Furman and Summers do acknowledge, in passing, that economics textbooks "teach that government deficits raise interest rates, crowd out private investment, and leave everyone poorer," and that cutting deficits "reduces interest rates, spurring productive investment." Yet, they insist, although those forces "may have been important in the late 1980s and early 1990s," that is no longer the case.

Too, the authors declare, peremptorily, it is a "widely held misconception that the deficit has risen primarily because government programs have grown more generous. Not so." Deficits, they insist, "have ballooned because of a series of tax cuts." Indeed, they also blame "tax cuts in the last 25 years" for misallocating "resources," worsening "income inequality," and, "at best," doing "very little for economic growth."

Ironically, as an article title says at investors.com, "Federal Revenues Hit All-Time Highs Under Trump Tax Cuts."

Without specifically endorsing the presumed solutions among the would-be Democrat presidents, the economist duo clearly look favorably at "progressive" proposals for "Medicare for all, free college, a federal jobs guarantee, and a massive green infrastructure program."

To pay for their desires, the solons say: "The truth is the federal government needs to raise more revenue." That means more taxation. Credit them with more proof of an oft-used precept, namely: Insanity is doing the same thing over and over again, but expecting different results.

The word "entitlement" supplies a convenient excuse for politicians to keep the payments going, and these days such spending is widely seen as the equivalent of *mandatory*. However, what Congress makes, it can unmake. And there is no truer saying than, "When something can't go on anymore, it won't." Congress is abdicating its responsibility, and it's a problem. According to projections made last year by the Congressional Budget Office, by the year 2031, all of the federal government's revenues will be "pre-committed" before legislators start debating the budget. Congress exercised discretion of more than 40 percent of the budget just 18 years ago; with "entitlements" uncontrolled, that portion has been cut to about 14 percent.

Warren's attempt to tax "wealth" — which, by any fair reading, would violate the 16th Amendment (since it isn't an income tax) and Article I, Section 9, Clause 4, of the Constitution (because it is an unapportioned direct tax) — would not even accomplish what she seeks. As pointed out in late March by Chris Edwards in National Review (online):

More than a dozen European countries used to have wealth taxes, but nearly all of these countries repealed them, including Austria, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, the Netherlands, Luxembourg, and Sweden. Wealth taxes survive only in Norway, Spain, and Switzerland.

Before repeal, European wealth taxes — with a variety of rates and bases — tended to raise only about 0.2 percent of gross domestic product in revenue, based on Organization for Economic Cooperation and Development data. That is only 1/40th as much as the U.S. federal income tax raises.

Yet for little revenue, wealth taxes are difficult to administer and enforce. They may require taxpayers to report the values of financial securities, homes, furniture, artwork, jewelry, antiques, vehicles, boats, pension rights, family businesses, farm assets, land, intellectual property, and much else.

Moreover, as noted last year by Michael Strain, director of economic policy studies and resident scholar at the American Enterprise Institute, the problem this tax money is meant to solve — inequality — has been largely resolved. An analysis by the Congressional Budget Office did find that, from 1979 through 2007, a measure of inequality did increase, but in recent years (2007 through 2014) it stabilized. Writes Strain (Bloomberg, June 6, 2018): "Looking at market income, inequality increased by only 3 percent. Once you add in cash payments and in-kind transfers from government safety net programs, inequality actually fell over this period."

And in fact, some inequality is reflective of better living for the poor. Renowned Austrian-American economist Ludwig von Mises (1881-1973) delivered a speech about this for the American Academy of Political and Social Science in Philadelphia on March 30, 1945:

The inequality of income and fortunes is essential in capitalism. The progressives consider profits as objectionable. The very existence of profits is in their eyes a proof that wage rates could be raised without harm to anybody else than idle parasites. They speak of profit without dealing with its corollary, loss. Profit and loss are the instruments by means of which the consumers keep a tight rein on all entrepreneurial activities. A profitable enterprise tends to expand, an unprofitable one tends to shrink. The elimination of profit renders production rigid and abolishes the consumers' sovereignty.

Profits and losses, as Mises continued, "draw the material factors of production from the hands of the inefficient and convey them into the hands of the more efficient.… The market system makes all men in their capacity as producers responsible to the consumers."

There is, concluded the genius of the "Austrian School" of economics, "no other planning for freedom and general welfare than to let the market system work. There is no other means to attain full employment, rising real wage rates and a high standard of living for the common man than private initiative and free enterprise."

Yet confiscation of wealth is an ancient tool. Mises wrote of it in his century-old magisterial book *Socialism*:

Not for one moment does it occur to the advocates of this popular taxation policy that direct taxes and taxes on trade may start a chain of events that will force down the standard of living of the very classes whose alleged interests they claim to represent.…

More and more the policy of taxation evolves into a policy of confiscation. The aim on which it concentrates is to tax out of existence every kind of fortune and income from property, in which process property invested in trade and industry, in shares and in bonds, is generally treated more ruthlessly than property in land. Taxation becomes the favorite weapon of interventionism.…

Nothing is more calculated to make a demagogue popular than a constantly reiterated demand for heavy taxation on the rich. Capital levies and high income taxes on larger incomes are extraordinarily popular with the masses, who do not have to pay them.

At the same time, the federal government also lies about the deficit projections and unfunded costs of "entitlements" such as Social Security and Medicare to hide the damage already being done. In January, Steve Hanke, a Johns Hopkins economics professor, and Stephen Walter, an economics professor at Loyola University Maryland, noted:

Official projections put the present value of these two unfunded liabilities at $50 trillion over the next 75 years. Boston University economist Laurence Kotlikoff calculates that the total U.S. fiscal gap is more than four times that amount and that closing it would require a tax hike of more than 60%.

Alternatively, we have the word of "Fauxcahontas" Warren, who swears that she just wants to confiscate a very, very small percentage of wealth from the very, very richest Americans. Do you want to bet your future on that promise?

— William P. Hoar

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