



Written by [Thomas R. Eddlem](#) on January 21, 2015

## Obama's SOTU: Gearing Up for 2016

President Obama tried to set the national conversation for the 2016 elections, outlining in his [State of the Union address](#) Tuesday a host of expensive new social programs that are doomed in the GOP Congress. The speech, which included a proposal to increase taxes on the most wealthy and a host of new welfare programs for the middle class, was scripted to bait the Republicans into crying “class warfare” and backing the GOP into a campaign of defending the rich.



Many of Obama's 2015 State of the Union proposals were not serious in the sense that he can reasonably expect the Republican Congress to enact them. In the wake of the electoral drubbing of the bloated government agenda the voters served up to his Democratic party last November, Obama proposed more of the same as an attempt to shift the debate for the 2016 elections by framing the issue in terms of income disparity. Key proposals included:

- Nationally mandated paid sick leave
- Federally paid free community college tuition
- Government child care subsidies
- Enactment of a new equal pay law for women (even though it's been the law since the 1963 Equal Employment Act)
- Raising the minimum wage
- Closing tax “loopholes” for the “rich”

Even the leftist *New York Times* [labeled](#) the president's initiatives an “expensive domestic agenda aimed at improving the fortunes of the middle class.” President Obama [coined](#) the term “Middle Class Economics” as a new buzzword. The term apparently means putting the middle class on welfare, just like the poor. Obama deployed this new catch-phrase five times during the State of the Union address. The proposals call for middle class welfare for college, welfare for child care — all controlled by the federal government, as if the federal government is a better parent than middle class moms and dads. Obama [claimed](#) that government spending on education was the reason for the success of the American economy in the 20th century, and not private entrepreneurship. “Free community college is possible,” the president claimed — but of course it's only possible if someone else is made to pay for it.

In the end, tax burden shifting from the middle class to the rich — although the rich already pay the [overwhelmingly large percentage of the tax burden](#) — is small potatoes, ideologically speaking. Republicans will likely accuse Obama of engaging in class warfare, which is true. But there are only so many taxes that can be wrung out of the rich before jobs dry up, though the top income tax levels could probably suffer an increase without economic calamity. Former Congressman Ron Paul noted in a [Facebook post](#) that Obama claimed “that the rich should be taxed more to help the middle class. To do



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this, President Obama will raise inheritance and capital gains taxes. But in a free market, this is where investment money comes from. His tax plan will destroy capital — the life-blood of a free market. By reducing capital savings, the president's move will place additional pressure on the Fed to create 'capital' out of thin air. That means the Fed will accelerate the (virtual) printing presses and thus reduce the value of the dollar for everyone."

In truth, there is something to Obama's argument that there is greater income disparity in America now than in recent decades. Senator Ted Cruz (R-Texas) acknowledged this fact in a post-speech interview with Megyn Kelly on the Fox News Channel. "It is true that the top one percent are doing great under Barack Obama. Today, the top one percent earn a higher share of our national income in any year since 1928. The sad reality is that with big government under the Obama administration, the rich and powerful — those who walk the corridors of power under the Obama administration — have gotten fat and happy." Cruz stressed that crony capitalists "benefit with connections to Washington with influence," a statement that doubles-down on Obama's claim that "for far too long, lobbyists have rigged the tax code with loopholes that let some corporations pay nothing while others pay full freight. They've riddled it with giveaways the superrich don't need, denying a break to middle class families who do."

Indeed, the increasing income gap can be almost entirely attributed to crony capitalist subsidies rather than income tax rates. Robert Frank of CNBC reported back on December 18, 2013 that the Federal Reserve's Quantitative Easing has been "the greatest subsidy to the rich ever." [According to](#) Frank: "More millionaires have been created over the past five years than during the entire eight years of the Bush administration.... The reason is simple: Fed policy has fueled a surge in the value of financial assets. Since the wealthiest 5 percent of Americans own 60 percent of financial assets, and the top 10 percent own 80 percent of the stocks, those gains in financial assets have gone disproportionately to a small group at the top."

Big banks also continue to reap subsidy benefits because of an implicit "too big to fail" bailout assumption by the markets. Viral V. Acharya's 2014 paper "The End of Market Discipline? Investor Expectations of Implicit Government Guarantees" [explained](#): "The implicit subsidy provided large institutions an annual funding cost advantage of approximately 28 basis points on average over the 1990-2010 period, peaking at more than 120 basis points in 2009." In other words, big banks can get access to money at lower interest rates than small banks because of the implied federal bailout. Even the Federal Reserve Bank has [acknowledged](#) that the federal government has given a subsidy to mortgage-based GSEs such as Fannie Mae, Freddie Mac, and Ginnie Mae.

The U.S. Export-Import Bank also counts as a major tax subsidy for some of the largest corporations in America, especially Boeing. Leftist poster child Senator Elizabeth Warren (D-Mass.), who constantly [rails](#) against the rich and income disparity, [backed](#) renewal of the Export-Import Bank's crony capitalist subsidies of giant corporations.

The one proposal where Obama received a positive response was in his calling for trade "Fast Track" authority, which would make Congress vote a trade deal up-or-down without amendments. The GOP will fall for this one. Senator Joni Ernst (R-Iowa) [agreed](#) with Congress giving up its "advice" portion of its responsibility in the "advise and consent" part of the Constitution's treaty power. "Let's tear down trade barriers in places like Europe and the Pacific. Let's sell more of what we make and grow in America over there so we can boost manufacturing, wages, and jobs right here, at home." At least, that's how the promoters of the [Transatlantic Trade and Investment Partnership and Trans-Pacific Partnership](#)



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present their trade agenda, which under the guise of free trade would transfer economic and political control to regional arrangements along the lines of the European Union.

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