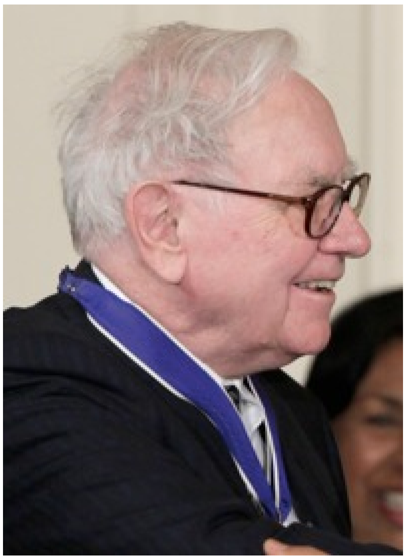
# The Presidents Flow of Red Ink and Economic Fallacies Continues



And to make his point clear, he declared,

> I will veto any bill that changes benefits for those who rely on Medicare *but does not raise serious revenues* by asking the wealthiest Americans or biggest corporations to pay their fair share. [Emphasis added.]

One piece of his proposal, which has been dubbed the "Buffett rule," would not allow millionaires to pay a lesser share of their income in taxes than middle-income earners pay, such as Warren Buffett's secretary. And that is the first of several fallacies underpinning his proposal. When all the taxes that Buffett pays are taken into account, his share is vastly larger than Buffett publicly admitted. As noted by Richard Rahn, senior fellow at the Cato Institute, "Buffett appears to prefer to take much of his compensation in the form of capital gains rather than salary.... To properly measure his tax rate, it would be necessary to look at all of the taxes he pays both directly and indirectly on his investment income, including the inflation tax and pro-rata share of the corporate income tax. You can bet it is far higher than his secretary's tax rate."

The second fallacy is that somehow the rich aren't paying "their fair share," without Obama being explicit about just how much that actually should be. Stephen Entin, a former U.S. Treasury official, testified before Congress and explained that "the top earners already pay a very high portion of the income tax. The top 2 percent of the taxpayers [received] 28 percent of [the country's total adjusted gross income] and paid 49 percent of the [the country's total] income tax."

Another fallacy behind Obama's plan is that increasing taxes on the rich would have no impact on their incentive to produce and, consequently, no impact on the economy. But raising taxes on cigarettes to discourage smoking has certainly been a tool of government to modify behavior. Why wouldn't raising taxes on economic activity have a similar affect? The rule is that the more government taxes something, the less there is of it. As Entin rhetorically noted, "Higher capital gains taxes will result in fewer new jobs and even less tax revenue. How is that fair, Mr. President?"

In fact, it is highly likely that revenues under Obama's proposal would actually decrease substantially. Kurt Hauser, writing in the *Wall Street Journal*, observed,

> Over the past six decades, tax revenues as a percentage of GDP [Gross Domestic Product] have averaged just under 19% *regardless of the top marginal personal income tax rate*…. [Emphasis added.]
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> Over this period there have been more than 30 major changes in the tax code including personal income tax rates, corporate tax rates, capital gains taxes, dividends taxes, investment tax credits, depreciation schedules, Social Security taxes, and the number of tax brackets, among others. Yet during this period, federal government tax collections as a share of GDP have moved within a narrow band of just under 19% of GDP.
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> Why? Higher taxes discourage the "animal spirits" of entrepreneurship. When tax rates are raised, taxpayers are encouraged to shift, hide, and underreport income. Taxpayers divert their effort from pro-growth productive investments to seeking tax shelters, tax havens, and tax exempt investments….
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> On average, GDP has grown at a faster rate in the several quarters after taxes are lowered than the several quarters before the tax reductions. In the six quarters prior to the May 2003 Bush tax cuts, GDP grew at an average annual quarterly rate of [just] 1.8%. In the six quarters following the tax cuts, GDP grew at an average annual quarterly rate of 3.8%.

The fallacious assumptions behind the Obama proposal can be exposed logically as well. When tax increases target the most productive citizens, capital that would otherwise flow into the economy is kept idle. Obama continues to fail to understand that in the capitalist system, someone has to provide the capital. Private capitalists have the incentive to invest their capital where it will do the most good. If that capital is removed from the private sector by the government, it will instead be spent where it will do the most political good for the benefit of those in or closely associated with the government.

Probably the most ignorant and outrageous statement that was uttered by the President on Monday night at a town hall event in Mountain View, California, was when he claimed that without higher taxes, it would be impossible to have a "modern industrial economy." Here are his exact words:

> Some of the Republican proposals would take it back — as a percentage of GDP — back to where we were in the 1920s. You can't have a modern industrial economy like that.

On the contrary, economic history shows that when government intrudes the least, the economy grows the most. One need only look at economic activity in America when there was *no* income tax. Take a look at the "golden age" of free market capitalism from 1830 to 1900. In less than 100 years the country expanded and improved the standard of living of its citizens more quickly than at any other time in history. Instead of piddling along at one to two percent annual growth, the economy back then doubled and then doubled again every decade — growing 19-fold per person.

The fallacious theme that permeates the President's proposal was encapsulated in this single sentence: Obama said, "It's a question of how can we afford to make the investments that are going to propel

America forward." It's not the government's job to "make investments." Government's job is to stay out of the way and let the people who own the capital make those decisions. What continues to amaze is the number of people who listen to his fallacies and false assumptions, and applaud him anyway.

*Photo of Warren Buffett: AP Images*