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ECONOMIC NEWS UPDATE

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13 July 2012

Forget The Past Three Years, Let's Talk About Fairness

It's easy to blame our politicians for their inability to come to some sort of compromise on the issues facing the economy. And they surely deserve a good portion of whatever obloquy is heaped upon them as they posture and subordinate the national interest to narrower and often baser goals. But politicians respond to voters, and voters are just about evenly divided on most issues, a fact reflected in the more-or-less neck-and-neck race being run by Barack Obama and Mitt Romney on the road that leads to 1600 Pennsylvania Avenue, that white house that contains the storied Oval Office.

The closeness of the race leads to two strategies. The first

is to sling as much mud as possible, a reasonable approach since negative ads seem to be effective. The second is to find some issue that a vast majority of voters find attractive, and is something that will wrong-foot the opponent.

China-bashing won't do: the positions of both candidates vary from tougher to toughest, the latter crown moving from head to head with the latest speech. Being for or against Obamacare won't do: voters have decided where they stand on that radical change in the health care system, and nothing any candidate can say will cause them to switch their voting preference.

So President Obama has hit on an issue that he sees as a multi-faceted sure winner: tax fairness. Or as John Selden put it in 1689, "equity". Equity, or fairness, Selden pointed out, is in the eye of the beholder, or in this case the eye of the President. It is "a roguish thing, ... according to the conscience of him that is Chancellor [read, President]," Selden noted.

In the President's case fairness requires that the Bush tax cuts, due to expire at the end of this year, be extended another year for the 98% of families with annual incomes of less than \$250,000. Rates on incomes in excess of that would go up from 33% to 36% for families and 35% to 39.6% for individuals, taxes on capital gains would shoot up from 15% to 23.8%, and taxes on dividends would jump.

Obama says it is only "fair" that the wealthiest Americans bear more of the burden of reducing the deficit. Romney responds that the new rates would hit job-creating small businesses, since profits of many of these enterprises are taxed at personal rates. That, he says, would reduce already-anemic growth and job-creation rates.

In fact, this debate is less about taxes and more about Obama's effort to frame the broader debate about which candidate should be granted the keys to the White House. The President knows that he cannot run on his record. Obamacare remains unpopular, and therefore is barely mentioned, except occasionally before predictably favorable audiences and by a surrogate (Biden before the NAACP) even though Obama regards it as his signature, historical achievement, the culmination of an effort pursued unsuccessfully by many presidents, allegedly starting with Teddy Roosevelt. The unemployment rate has risen; millions of workers have dropped out of the work force; homeowners in the tens of thousands have lost their homes and now that some technical details have been worked out foreclosures are likely to pick up; middle class incomes are somewhere between stagnant and declining. So if Obama is to win he must air-brush the last three years out of the history books.

He knows, too, that the revenue from his plan to raise taxes on the rich won't make a dent in the deficit. The fairness

issue is designed to appeal to his left-leaning base, and persuade the blue-collar Reagan Democrats who supported him in 2008 but are now disenchanted to stick with him rather than switch to an uncaring rich guy who made his fortune at Bain Capital draining cash from companies and shipping jobs overseas. Romney has not helped himself by being photographed in a fire-engine red jet ski and “roaring across Lake Winnepesaukee on a powerboat large enough to hold two dozen family members gathered for a weeklong vacation at his New Hampshire compound [estate]”, to quote the Obamaphilic New York Times. Fortunately for Romney, the New York Times and its liberal brethren, who were charmed by the doings at the Kennedy compound, which included an ample share of water sports, do not represent the national attitude towards rich people. Some 75% of voters tell pollsters that Romney’s wealth makes no difference in how they plan to vote.

The debate is also about the “fiscal cliff” toward which the US economy is hurtling. Legislation now calls for a recession-inducing year-end

toxic mix of tax increases as the Bush tax cuts and a payroll tax reduction expire, and a mandated reduction in government spending is effectuated. So Obama has positioned himself as trying to avoid another recession by postponing most of the tax rises -- but only if Republicans do the “fair” thing and go along with his plan to allow taxes to increase on the wealthiest 2%.

The President wants the Democratic-controlled senate to vote for his tax plan, and now. That would, he thought, force the Republicans to oppose tax relief for the middle class in order to protect “the rich”. He hadn’t planned that several members of his own party would be reluctant to vote for any tax increases, especially in states where \$250,000 is not considered rich. So majority leader Harry Reid has been forced to reject Republicans’ demands for a vote on Obama’s bill, at least until he can whip reluctant Democrats into line behind an embarrassed President. The Republicans would like separate votes on extending the tax to everyone, followed by another calling for an increase to wealthy taxpayers -- a bill many Democrats would not

support. This bit of foreplay will be followed by meaningless passage of the President's bill, to be interred by the Republican-controlled House.

Most voters won't pay attention to these debates until the traditional beginning of the campaign season on Labor Day, September 3. Unlike Beltway political junkies, most people have a life that includes barbecues, baseball games, family vacations. Then, those who have not already decided which candidate is most likely to get the country back on the right track -- two-thirds say we are on the wrong track -- will begin to listen to the arguments and size up the candidates.

Most forecasters agree that the state of the economy on election day, November 6, will be what it now is -- unemployment above 8%, job creation barely sufficient to keep up with population growth, deficits unsustainable, the middle class under economic pressure, repossessions again on the rise, the fiscal cliff in clear view. Fortunately for the President, 60% of voters believe he inherited that situation, and he remains personally popular. Best of all, he may be facing a challenger

who persists in following Woody Allen's advice: 80% of success in life is just showing up.

Voters will have to choose between Obama, who is promising to improve their condition by expanding government and raising taxes, and a rich challenger with a vision of a private sector, liberated from regulations and benefiting from lower taxes, restoring the American dream. At least they can't complain that they don't have a clear choice between competing visions. It is not clear whether they will use that opportunity to register a clear choice, or leave us with a divided government with a single talent: kicking cans down the road.