

Three Fundamental Economic Questions for Senator Obama

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Lost in all of the campaign spin and generous mainstream media coverage of Senator Barack Obama is an understanding of why his economic approach will lead to a stronger, more competitive America. In an attempt to escape the soundbites and “nuances” of Senator Obama’s presidential campaign, I have three fundamental questions for him that permit a simple, straightforward response. Here are the questions:

Question One: What share of federal income taxes should the top 25% of Americans pay, and how many Americans should pay no federal taxes?

Liberals know they lost the more obvious battle in the tax war that dealt with marginal tax rates at truly confiscatory levels. Once President Ronald Reagan decimated the arguments for tax rates in the 70% range, no politician with national aspirations attempts to breach the 40% line of demarcation. Senator Obama even tries to wrap himself in the Reagan tax blanket by tying his tax rates to Reagan’s tax rates.

The less obvious battle in the tax war is over who should pay taxes and how much of the tax burden should a minority of Americans carry. Because Democrats have successfully used tax credits and other tax avoidance measures to expand the number of Americans who pay no federal taxes, a larger share of federal taxes are paid by a shrinking number of Americans. By shielding more of the income of the bottom 50% from being taxed and exposing more of the income of the top 25% to be taxed, the marginal tax rates remain low, but the effective taxes paid by the top 25% increases significantly.

Liberals constantly declare that the “rich” should pay their “fair share” of federal taxes. When exactly does a taxpayer reach his fair share of taxes? Liberals won’t say. They make these claims against millions of nameless and faceless Americans who they presume to know can afford to pay more federal taxes. In many cases, these Americans are the ones who live within their means, play by the rules, plan for the future, work the longest hours, have spent the most time and money earning advance degrees, and hope that the government will stop asking them to pay even more for programs they don’t use so they can save for the children’s college education or reinvest in their small businesses.

As Forbes reported, of the richest Americans on the Forbes 400 list, contrary to popular lore, 270 of them, or 68%, are entirely self-made. They didn’t inherit their wealth. They built companies, created jobs, and, through that effort, made millions

of middle class investors richer. These Americans should be exalted, not ridiculed by pseudo-Marxists or accused of illegality because a handful of bad apples break the law (despite the hot air of indictments, very few corporate executives ever get convicted after juries weigh the evidence).

While you don't have to subscribe to her objectivist philosophy, Ayn Rand's prophetic vision as laid out fifty-one years ago in *Atlas Shrugged* where the producers (read: rich) were forced to carry more and more of the costs of society sounds increasingly familiar. As the James Taggarts of today set their sights on the John Galts, Dagny Taggarts, Hank Reardens, and Francisco d'Anconia's of America with the "moral" claim that patriotism demands that they pay more, little thought is given to the long-term impact such policy will have on the incentives for the producers to keep producing in America. We certainly won't see the producers disappear as in Rand's novel, but the examples are abundant of the producers moving from high tax countries (England) to low tax countries (Ireland). In an ever-increasing global economy, moving operations becomes even easier.

Senator Obama has declared the rich to be those who make over \$250,000, and pledges only to raise taxes on the top 5% of Americans. Using 2005 figures, there were roughly 6,630,000 filers out of over 132,000,000 in the top 5% who made 36% of all adjusted gross income, but paid 60% of federal taxes. Expanding the analysis to the top 25% of Americans would capture 33,152,909 filers. Those Americans made 68% of all adjusted gross income, but paid 85% of federal taxes, which left only 15% of federal taxes to be paid by the remaining 99,000,000 filers.

In fact, the bottom 50% is comprised of 66,000,000 filers who made 13% of all adjusted gross income, but only paid 3% of federal taxes. Even more troubling, the bottom 20% of Americans who paid .8% of federal taxes will see their share of federal taxes drop to a negative .12% under Senator Obama's tax plan. That means they will get money from the federal government even though they paid no federal taxes.

These incontrovertible facts lead to the one very simply question posed above that Senator Obama should answer. Does he think the top 25% should pay 100% of federal taxes? Should the entire burden be paid for by the top 5% of Americans? Who should pay and how much should they pay? He should tell us. As Barry Goldwater stated in *The Conscience of a Conservative*, "Government does not have an unlimited claim on the earnings of individuals."

Such an "us versus them" approach is not just bad for the "them." It also is destructive for the "us." First, it undermines the work ethic because working harder to earn more only results in the government taking more. The non-economic costs of being away from family and friends become too high. Next, it reduces accountability in government as the dependent majority who pay little to nothing of federal taxes care more about what they get and care little about what it costs.

Finally, it disconnects Americans from being owners of their government and, as we learned from the peak of the welfare era, when people don't have a stake in their surroundings, they don't take care of it.

As Scottish Philosopher Alexander Tytler is credited with observing: "A democracy will continue to exist up until the time that voters discover that they can vote themselves generous gifts from the public treasury. From that moment on, the majority always votes for the candidates who promise the most benefits from the public treasury, with the result that every democracy will finally collapse due to loose fiscal policy, which is always followed by a dictatorship." Senator Obama aims his tax policy directly at this divide. He consciously promises the majority benefit after benefit and then says to those individuals who pay very little of the burden of those benefits that those nasty rich Americans in the top 5% will pay more. He hastens the tyranny of the minority.

Tytler studied the lifecycles of civilizations and found that they last for roughly 200 years. These civilizations followed a similar pattern. Tytler categorized the pattern as such: from bondage to spiritual faith; from spiritual faith to great courage; from courage to liberty; from liberty to abundance; from abundance to complacency; from complacency to apathy; from apathy to dependence; from dependence back into bondage.

America has reached the point at which over 50% of Americans receive a transfer payment from the federal government. Last year, roughly 44 million tax filers that paid no federal taxes received a check from the federal government. Senator Obama can dress that pig in whatever lipstick he wants, but those checks are nothing more than unearned transfer welfare payments. We know from Senator Joe Biden's paltry charitable giving "why does not such a man, instead, contribute what he regards as his just share of human welfare to a private charity?" It is because he gives at the office with taxpayer money when he increases government spending on programs that displace private charity.

Given these facts, it is hard to argue that America has not arrived at the dependence phase of its lifecycle. While we will never know how long this dependence phase will last before we slip back into bondage, unless we find leaders who can appeal to our better angels and make the case against the Obamas of the country who seek to take more and more from the minority to buy-off the majority, we will surely continue on the descent to bondage.

Question Two: Specifically, what three deregulatory actions caused the current financial crisis and exactly how did those actions lead to the financial meltdown?

Liberals and the mainstream media keep telling us that the Reagan Era move to deregulate led to the financial crisis. Yet, they seem largely unable to articulate

which deregulatory actions are to blame. Instead, they just keep repeating the claim without any meaningful support for it.

Case and point is a recent editorial by the New York Times titled, "Don't Blame the New Deal." That font of wisdom declared: "For decades now, antiregulation disciples of the Reagan Revolution have eliminated vital laws, blocked the enactment of much-needed new regulations, or simply refused to exercise their legal authority."

The first example given involved a failure of the Federal Reserve to "curb unfair, deceptive and predatory lending." Ironically, it was the New York Times itself that lauded Fannie Mae's easing of credit requirements in 1999 (see "Fannie Mae Eases Credit to Aid Mortgage Lending" from September 30, 1999), noting that the loosening of regulatory hurdles "will encourage those banks to extend home mortgages to individuals whose credit is generally not good enough to qualify for conventional loans."

The article noted that "Fannie Mae, the nation's biggest underwriter of home mortgages, has been under increasing pressure from the Clinton Administration to expand mortgage loans among low and moderate income people and felt pressure from stock holders to maintain its phenomenal growth in profits." It quoted Fannie Mae head Franklin Raines saying, "Fannie Mae has expanded home ownership for millions of families in the 1990's by reducing down payment requirements. Yet there remain too many borrowers whose credit is just a notch below what our underwriting has required who have been relegated to paying significantly higher mortgage rates in the so-called subprime market."

At least the New York Times acknowledged in passing that Fannie Mae was "taking on significantly more risk, which may not pose any difficulties during flush economic times. But the government-subsidized corporation may run into trouble in an economic downturn, prompting a government rescue similar to that of the savings and loan industry in the 1980's." Of course, this loosening of money to credit risky people occurred under Reagan disciple President Bill Clinton.

Then, it editorialized that it was the Gramm-Leach-Bliley Act in 1999 that ended the Glass-Steagall prohibition on commercial and investment banks merging. No less than former President Clinton himself unequivocally stated, "I don't see that signing that bill had anything to do with the current crisis. Indeed, one of the things that has helped stabilize the current situation...is the purchase of Merrill Lynch by Bank of America." Had the Gramm-Leach-Bliley Act not torn down the wall between types of banks, commercial banks wouldn't have been able to buy some of the investment banks, thereby lessening the financial crisis.

Finally, the New York Times, in what can only be described as a colossal partisan omission, blamed President George W. Bush and not the Democrats led by Barney Frank and Chris Dodd for the Fannie Mae and Freddie Mac reform legislation that

died in 2005. The legislation would have tightened the lending requirements, thereby preventing lending institutions from giving money to high-risk borrowers. One of the leading proponents of that legislation was John McCain. Senator Obama voted against the reform legislation.

The fact of the matter is that it was regulation that led to the mortgage crisis. The Congress and regulators aggressively pushed banks and other institutions to loan money to individuals unworthy of credit due to either low yearly income or poor credit histories. As both Presidents Clinton and Bush advocated homeownership for anyone and everyone, the Federal Reserve loosened monetary policy too much for too long, which flooded the market with historically record low interest rates for all those credit risky individuals.

As more and more people clamored for the easy money to buy homes and speculate on the housing market, the lending industry created mortgage packages where people making very little could obtain a house they couldn't afford with no money down and no proof of income. As the housing bubble grew and prices went up, things looked fine.

Once the housing bubble popped, prices began to decline, and people couldn't sell the homes they had purchased, adjustable rates adjusted up and the once affordable house became less affordable. Without any equity from a down payment or from appreciation of the house, individuals couldn't refinance to more stable mortgages. As a result, those with no skin in the game simply walked away from their homes and others lost them through foreclosure.

While some of these risky mortgages were held by commercial banks such as Washington Mutual, other had been packaged and sold as derivatives and other investment products to investment banks. As the housing market collapsed, more and more losses piled up until losses became wholly undeterminable. For the few commercial banks lacking diversity in holdings, they went bankrupt. For the investment banks with enormous asset to liability deficiencies, they either sold themselves for pennies on the dollar to commercial banks, received a federal bailout, or went belly up.

Make no mistake, however. But for the push by Washington to get individuals unworthy of credit into a house they couldn't afford, no one would be talking about a financial crisis. It is singularly tied to the housing bubble created by government action.

Since 2005, the subprime, option ARMs, and Alt-A loans that resulted in foreclosures have risen from under 2% to roughly 10%, while jumbo prime and agency prime loans remain under 2% of all foreclosures. Similarly, the delinquency rate for subprime, option ARMs, and Alt-A by thirty days or more is just under 25%, 15%,

12%, respectively. Less than 4% of jumbo prime and agency prime loans are delinquent by thirty days or more.

As noted by the Competitive Enterprise Institute, the federal regulatory leviathan, rather than shrinking, has grown unabated. In 2006, regulatory costs exceeded \$1.142 trillion, which is greater than the total of federal individual and corporate income taxes collected. Federal agencies issued 3,718 final rules in 2006. The era of deregulation isn't over. It never started.

Question Three: How do higher unionization rates make America more competitive and, therefore, stronger economically?

For the sake of cutting through the noise of union propaganda, I will concede that unions drive up wages and benefits for their members. Because liberals always tell us that corporations are greedy, I will assume Senator Obama will concede that unionized corporations won't pay for those increased wages and benefits by reducing their profits. That means, of course, that union wages and benefits will be paid for by increasing the price of the good or service that the corporation provides, which means higher prices for consumers.

The world, unlike in 1932, consists of a global economy. While unions and liberals like to pretend that they can unilaterally stop the globalization of work and force foreign countries to reduce their competitive advantage of lower wages and manufacturing costs, they can't. The reality is that countries with strong trade unions and socialist-leaning economic policies like France and Germany are weakening the power of the unions because, no matter how hard they try, they have been unable to force China, India, Malaysia, or even Eastern Europe to adopt their labor standards. As a result, their unemployment rates remain higher than other developed nations and their economies weaker.

Does Senator Obama plan to use tariffs and other trade barriers to try and obtain concessions from lower cost countries? As we learned from the Great Depression, placing tariffs on imports from countries that won't unilaterally disarm will lead to greater economic damage. So, how will he persuade these countries to adopt America's more costly labor structure?

Even within the United States, in industries where unions have had their strongest presence, those corporations are withering on the vine of unionization while their non-unionized brethren remain viable. The American carmakers beg bureaucrats in Washington to give them billions in aid because they make cars that simply cost too much due to the higher wages and benefits the unions extracted over the last forty years.

Just down the road in places like Ohio, Honda plants operate at full capacity to meet the ever increasing demand for their lower priced and better (American) built cars.

The short-term gain for some union members now retired has come at the long-term expense of those union members who came to the table later, to the communities left to deal with empty plants, and to the jobs that likely would have remained had employees ditched their unions.

The airlines with unionized employees teeter on the verge of bankruptcy while non-unionized airlines produce profits, high customer satisfaction rates, and loyal employees. The heavily unionized steel and manufacturing industries long ago lost the battle to the global economy, except in those states with right to work laws that protect workers who don't want to join the union.

In Washington state, Boeing is losing \$100 million a day in deferred revenue because the machinists union rejected an offer worth roughly \$38,000 per member over three years. When many Americans are losing their jobs or seeing their wages decline, a \$12,500 yearly increase seems pretty generous. Is it any wonder that Boeing wants to move as much of its manufacturing as possible outside of America? Sure, that very outsourcing has resulted in temporary supply chain delays for its revolutionary Dreamliner airplane, but supply chains can be fixed. Union power in a non-right to work state renders Boeing largely powerless. We have seen this story before. It rarely ends well for the consumer or the economy.

In non-right to work states, the unionization rate is nearly twice that of right to work states. Not surprisingly, the unemployment rate in those states is also higher. So is the amount of federal government transfer payments. The average Gross Domestic Product of non-right to work states from 1997 to 2006 is over 14% lower than in right to work states.

The only industry where unions thrive is in government. With their monopolies and lack of profit and loss drivers, government and their union allies grow and cost more every year. Public sector employees now make more than their private sector neighbors who actually pay for their costs. Even in government, unions need affirmative action laws (i.e., prevailing wage) in order to compete, which further drives the cost up for taxpayers. Looming not too far in the distance is the moment when grossly underfunded (and grossly generous) public sector pension plans will require some sort of taxpayer bailout.

Most of America's public schools are 100% unionized and 100% uncompetitive. They cost too much and accomplish too little. With all of these facts, why does Senator Obama think that increasing unionization rates will be good for America? Does he really think that unionizing 10%, 20%, or 30% of the U.S. economy will make America more competitive globally?

These are very simple questions that Senator Obama should answer. The American economy is in a very rough patch. The last thing it needs is a president who thinks

that the road to prosperity is paved by punishing producers, increasing dependency, over-regulating, and driving up labor costs.

“Yes, we can” do that, but we shouldn’t.

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