

## Call Their Bluff, Mr. President

By David Cay Johnston

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Johnston argues that President Obama should call the Republicans on their bluff that they will force income tax increases on everyone unless top-income Americans continue to benefit from Bush-era tax cuts.

Will President Obama cave on yet another of his campaign promises, this time by giving in to Republican demands to extend all of the temporary Bush tax cuts? The president signaled this on his Asia trip when he said his principal concern was retaining the middle-income tax rates.

Republican congressional leaders have said they will let all of the Bush tax cuts expire unless the president bows to their demand that the top 3 percent of Americans be included in any tax cut extension.

Obama should call their bluff.

I don't think the Republicans are so stupid that they would let all the Bush tax cuts expire if they cannot continue tax cuts for billionaires and the affluent on all of their income. But let's assume that the Republican leaders on Capitol Hill are that dumb, or so beholden to the antitax billionaires funding their campaigns, that they would force universal tax increases.

This is a fight that Obama can win, and win handily, if he has the backbone to stand up for the vast majority and sound tax policies, and to take on the antitax billionaires who are piling up huge gains while unemployment, debt, and fear stalk our land.

A sudden reduction in take-home pay in January would seriously damage our fragile economy, not to mention provoke widespread anger and fear. The economic news would be so awful that a president half as eloquent as Obama could easily focus attention on the Republican all-or-nothing tax policies as the cause of this universal pain.

And like an extra cherry atop a sundae, the Republicans gave Obama a gift when they said they have no interest in renewing his \$400 Making Work Pay tax credit. That statement alone lets the presi-

dent paint Republicans as tax hikers who want to hit people who work, while shielding billionaires.

Moreover, since polls show that hardly anyone knows about this Obama tax cut, which the administration calls the largest middle-class tax cut in history, promoting it would be like getting a second free cherry from the GOP.

Can Obama do it?

Back in September he spoke in firm language:

We know that a strong middle class leads a strong economy. And that's why, as we dig our way out of this recession, we've set our sights on policies that grow the middle class and provide a ladder for those who are struggling to join it. And that's why I am urging the leaders of the other party to stop holding middle-class tax cuts hostage and extend this relief to families immediately.

Now Obama seems ready to give in to the hostage takers.

Poll after poll shows less than 40 percent of Americans support extending the Bush tax cuts for all, and that support is highly concentrated among Republicans.

Fox News, in yet another poll it commissioned but hardly found worthy of mention, found that registered voters opposed the Republican plan of tax cuts for all. The Fox poll of 1,200 registered voters taken the week before the midterm elections found that 55 percent wanted to repeal all the tax cuts or just those for taxpayers making more than \$250,000 annually. Just 39 percent favored keeping all the Bush tax cuts, with the rest unsure.

Among Democrats, 74 percent favored repealing all the tax cuts or just those for top earners. Among independents it was 53 percent. Among Republicans this was the minority position, but it still drew 36 percent.

The Republicans cannot pass any legislation the Democrats choose to block. Further, the Republicans have no chance of overriding a veto, which requires a two-thirds vote of those present in both houses. The Republicans control the House, but they have only as much power to enact laws as Obama and Senate Democrats give them.

More important than any political gain, however, is what calling the GOP bluff could do to get our nation back on the path to prosperity and to stop policies that are pushing us into economic disaster,

thanks in huge part to the Bush administration's combination of revenue-losing tax cuts, wars, and wild spending.

By calling the Republicans' bluff, Obama can get us talking about taxes and the future of America, instead of protecting what the richest among us already have.

The president could speak about Wall Street handing out record bonuses this year — an estimated \$144 billion to a relative handful of people, many of whom get richer by destroying wealth, including assets of state and local government pension funds whose losses we have to make up for with more taxes.

Those bonuses, by the way, are about 2.4 times expected Wall Street profits.

How about a presidential lecture on entitlements focused on Lloyd Blankfein, whose firm's bad bets taxpayers paid off at 100 cents on the dollar? The Goldman Sachs boss whines about making only \$9 million last year because of his "sacrifice" and plans an extra-big payday this December to make up for last year.

The president could change the terms of our economic debate by talking about how much the vast majority props up many of those at the very top, starting with Blankfein. He could tell people about the trillion dollars a year of tax favors for corporations and the rich, as documented by the Shelf Project. (For the article, see *Tax Notes*, July 5, 2010, p. 101, *Doc 2010-13081*, or *2010 TNT 129-4*.)

Obama should explain how soak-the-middle-class and sink-the-poor policies damage economic growth.

Obama could also talk about how America has stopped being number one in many other categories because of tax policies that are hollowing out our nation's economy and destroying the commonwealth on which private wealth building relies.

One of the costliest of these policies is jacking up public college tuition, converting higher education from a public investment in bright minds, so we all gain from them, into a government-guaranteed predatory loan business whose biggest player consistently earns stunning 50 percent annual returns on its equity.

New research, reported in the current issue of *The Atlantic*, shows that our system is falling behind much poorer countries. If we look at each state separately, Massachusetts has the best high school education in America when it comes to advanced math skills, but still it ranks 17th in the world, far behind Taiwan and significantly below the Czech Republic and Slovenia.

If we went back to making college free for students who earn top grades, we could develop

more valuable minds. Countries not nearly as rich as ours afford free college for serious students. How can we *not* afford it?

We have gone from 1st to 15th place in Internet quality and we pay much more for slower connections than people in many other countries. Our healthcare system is worse than Portugal's, and even Costa Rica's, according to the World Health Organization. First place? France.

By winning on tax policy, the president could then renew his push for the greatest single economic growth policy around: universal healthcare financed with taxes, which could free up 5 percentage points of GDP for productive purposes.

He could start by emphasizing that we could eliminate significant small business hassles negotiating insurance contracts, paying premiums, and filling out annoying paperwork for insurers and the government. Helping business owners this way would cut costs significantly while producing better health outcomes, as we find in Australia, Canada, Europe, Japan, and New Zealand.

In our zeal to reduce taxes, we have slashed food safety inspections until people dying from a bad egg or spinach salad no longer makes the front page. Obama could tell Americans that the ideology of tax cuts as the only economic policy means that America's rate of food-borne illnesses is now nearly 8 times that of Britain and more than 21 times that of France.

The risk of dam collapses grows with each storm, and sooner or later many, maybe thousands, will die. Roads need repair. So do bridges and water pipes and public school buildings.

If Republicans actually force a universal tax increase, the president could then focus attention on the effort by billionaire tax-favored Wall Streeters like Peter Peterson, who profit from tax tricks like the one Peterson's firm used in 2007 to write off the value of its reputation as an investment manager, something the tax law supposedly prohibits.

Calling the GOP's bluff would let the president raise the issue of whether we want to cut Social Security and Medicare benefits so Peterson and his peers can have even more. Is Peterson's use of a multimillion-dollar helicopter just to avoid the summer traffic between Manhattan and his Hamptons mansion enough? Or should we all pay more so he can buy a new helicopter?

The president could explain that the tax system helps Peterson's billions float on a sea of tax credits, tax breaks, and tax deferrals. Obama could read to people from 1950s newspaper stories about old ladies eating cat food. The president could stop in at food banks where families who worked hard and played by the rules were crushed by the machinations of Wall Streeters.

He could talk about how a single working person making the median wage of just over \$26,000 paid nearly a third larger share of her income in federal taxes than the top 400 taxpayers, who each made almost \$1 million a day in 2007.

And Obama could tell taxpayers about all those people with billion-dollar annual incomes who legally pay no current income taxes, while the rest of us get dinged before we get paid. Let me play speechwriter for Obama on this one:

The Republicans took away your tax savings, every penny of it, but first they made sure that hedge fund managers will not have to pay any taxes this year unless they choose to.

Hedge fund managers make billions of dollars each year, but they get to delay paying their taxes for years or even decades — and then pay taxes at less than half the rate that other highly paid people must pay.

Do these hedge fund managers build factories? Do they create software or new technologies? Do they create the jobs America needs? No! They are speculators, speculating with borrowed money.

The Republicans want to cut your Medicare and cut your Social Security.

Now if that's what you want, then I urge you to support the Republicans. But if you think the highest-paid workers in the history of the world — people who can and often do make a billion dollars in a year — should pay taxes,

pay their taxes in full, and pay them now, then you need to show your support for my policies.

If you want your tax cuts back, you need to stand with me. You need to petition, to demonstrate, to call and write to your representative and senators, telling them this kind of favoritism has got to stop and stop right now.

The question on the table for Obama is this: Will you do the job you asked people to elect you to do?

With a tough, clear message, the president could move our country forward toward the kind of debate we need to have, about how best to tax ourselves in the 21st century, about how to make our country's infrastructure safe, our education first-rate again, and our research laboratories cutting edge.

But will he?

And if the Republicans cave, then what? Then the president will find his approval ratings soaring, because the public loves a winner, the majority wants him to win this one, and he will have saved us from borrowing \$700 billion to give to the richest among us, which is not just more than we can afford, it is crazy, stupid, and economically destructive.

When it comes to taxes, will Barack Obama prove himself a profile in courage or a coward who lacks the courage of his convictions?

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