Insight

The Buffett Rule Fails the Reagan Test

GORDON GRAY | APRIL 11, 2012

In his continuing effort to distract the American electorate from the weak economy on his watch, today, President Obama doubled down on the small-ball tax policy known as the Buffett rule. Laughably, the White House invoked Ronald Reagan, and 1986 tax reform, to rhetorically defend Obama's campaign-trail policy. Never mind President Reagan would probably object to those arguing for a "good dose of government control and higher taxes" invoking his legacy to argue for bad policy. Rather, let's look at the merits of the argument.

As President of the American Action Forum Douglas Holtz-Eakin points out in this analysis, the Buffett rule flies in the face of what the 1986 tax reform sought to accomplish – lower marginal rates with a broader tax base. Instead, the Buffet rule goes in the other direction, seeking to raise rates on a narrow base of taxpayers.

Moreover, as noted by Holtz-Eakin's analysis, the Buffett rule is a solution in search of a problem. The average effective tax on millionaires is already 30 percent, the "fair share" established under the Buffett rule. To be sure, some may pay less, but some necessarily pay more. Adding complexity to the tax code to catch the relative handful of people who may pay less than an arbitrary percentage in a given year runs counter to the spirit of sound tax reform. Further, this line of thinking is exactly the kind of policy formulation that begot the AMT, the onerous tax behemoth that has been roundly acknowledged as fundamental flaw in the tax code.

The administration does deserve credit, at least in one respect, for being honest about the Buffett rule's capacity to right the nation's fiscal ship: it won't. It raises less than $50 billion over ten years. Meanwhile, we've posted 4 consecutive years of deficits exceeding $1 trillion. In contrast, as Holtz-Eakin notes, real tax reform boost economic growth by at least 0.3 percentage points a year, which would raise revenue on the order of $80 to $100 billion. In this sense, forgoing meaningful tax reform in favor of the "Buffett rule" forfeits $35

billion to $55 billion in deficit, essentially worsening our budget woes.