

# The Rich Can't Do it Alone

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**MarketWatch Blog** by Alicia H. Munnell



Alicia H. Munnell is a columnist for *MarketWatch* and director of the Center for Retirement Research at Boston College.

The President's budget deserves the mixed reviews that it has received. On the one hand, his proposals would stabilize the debt over the next decade and look beyond cuts in discretionary spending to accomplish these goals. On the other hand, they fail to address the real problems that arrive thereafter when entitlement spending accelerates and taxes fall short.

On the tax front, the President makes a number of proposals to increase revenues, but the main revenue raiser is allowing the 2001 and 2003 tax cuts to expire for those with household income above \$250,000. In addition, the President proposes to limit the value of itemized deductions and other preferences to 28 percent for households with incomes over \$250,000. And the President supports the return of the estate tax exemption and rates to 2009 levels (\$3,500,000 and a maximum rate of 45 percent).

The message in these proposals is that 2 percent of households can solve the nation's deficit problems. That is not correct. Everybody needs to participate. *All* the Bush tax cuts should be allowed to expire at the end of 2012. If the economy is too weak to raise taxes at that time, link the expiration to an unemployment trigger. That is, half the cuts would be eliminated once the unemployment rates hits 7.5 percent, another quarter at 6.5 percent, and the remaining quarter at 5.5 percent.

We never needed and could never afford the cuts in the first place. In fact, the reason they were originally slated to expire was a budget gimmick to disguise their long-run costs. If we don't get rid of the tax cuts now, they will do more damage to our nation's fiscal future.

In this environment where raising taxes is virtually impossible, policymakers concerned about long-run deficit reduction cannot pass up the only opportunity available – namely, allow tax cuts to expire. In other words, if Congress does nothing, rates will rise. To advocate against such an expiration – regardless of campaign promises – suggests a lack of concern for the long-run fiscal challenges.

Moreover, I don't like the rhetoric. Dividing the nation's households into the "wealthy" and "the middle class" creates one more fissure in a country that is already fractured along so many dimensions. It pits the majority of Americans against the top 2 percent. It suggests that the majority of Americans should not be called upon to solve the nation's fiscal problems. It violates the notion that we are all in this together. Yes, the rich can contribute more, but we can all contribute something.

Allowing the Bush tax cuts to expire for everyone will restore a sense of national unity. The progressivity of the personal income tax will ensure that those with higher incomes pay more — \$803 for a household with a cash income of \$40,000-\$50,000; \$1,677 for a household with \$100,000-\$200,000; and \$18,529 for a household with \$500,000-\$1,000,000.

In addition to helping to solve the long-run deficit problem, eliminating all the Bush tax cuts would set the stage for tax reform. Tax reform inevitably creates winners and losers. If revenues are available to help pay off some of the losers, the process will be a lot easier.

