

Teddy Roosevelt Redux?

On Tuesday, December 5, President Obama went to Oswatimie, Kansas, where Teddy Roosevelt in 1910 had made one of his most famous speeches. Democrats, the current president would have us think, are following in the tradition of Teddy Roosevelt in pushing for higher taxes on the rich and temporary Social Security tax breaks for the middle class.

This debate over the relationship between government and the rich has been part of every presidential contest for more than a century. But myths and misunderstandings pervade attempts to compare 2012 and 1910 with policy prescriptions in mind. Chief among the myths propagated by both political parties is that, for better or worse, larger and more engaged government has come about through taxing the rich.

In reality, Democrats today can't solve our nation's many budgetary woes primarily by taxing the rich, and Republicans risk alienating the middle class when they try to spare the rich from sharing the additional burdens most Americans soon must bear. But neither side is facing the truth head on: a full accounting reveals that the middle class simply can't be spared.

For perspective, let's return with President Obama to the Progressive era, stretching roughly from the late 19th century through the early 20th and bestrode by such figures as Teddy Roosevelt and Woodrow Wilson. Early in that period, the federal government was small, spending mainly on the postal service and benefits for Civil War veterans. The tax system was based largely on tariffs and excises on selected products, paid mainly by consumers. Since most income and trade weren't taxed, receipts couldn't finance more than a small government.

Meanwhile, the Industrial Revolution boosted the power of industrial barons at home and nation-states abroad. Whatever one's view on the danger of vesting too much power in government, more was needed to countervail these other forces. And, except during the war years, the initial growth in government was fueled by higher taxes on the rich and on businesses. Ratified by constitutional amendment in 1913, the modern income tax excluded most households and collected more from corporations than individuals for decades. From this initial correlation between larger government and more progressive taxation sprang the myth that the two always go hand in hand.

Fast forward a bit. For the last six decades, government's growth has been financed not by raising taxes on the rich and business, but by broadening taxes to most of the population. Gradually, most of the middle class has ended up paying income tax, though other offsets have kept income tax revenues from rising much relative to national income. In both the United States and Western Europe after World War II, almost all revenue increases have derived from taxes with relatively flat, not progressive, rates: Social Security taxes here and elsewhere, and value-added taxes in most other countries. Meanwhile, the top rate of income taxation—90 percent or more just after World War II—has been reduced first to 70 percent, then 50 percent, then between 28 and 40 percent. Despite the huge political rift now over where within that 28 to 40 percent range we should end up, many earlier tax cuts were sponsored or supported by both political parties.

Now look at taxes compared to spending today. The federal government is spending about \$31,000 per household and collecting \$19,000 in taxes—a gap that economic growth by itself barely influences.

Deficits like these are the stuff of economic nightmares. Something—no, a lot of things—must give.

Much of that give has to come from forgone spending, mainly slowing down the growth rate for health care and retirement costs. But spending is distributed more progressively than taxes, so spending cuts would largely hurt the middle class, which from far left to far right claims it shouldn't be affected at all. The Occupy Wall Street crowd, for instance, asks the "99 percent" only what they should demand from the "1 percent," while Tea Party supporters largely appeal to middle-class opposition to paying more taxes.

Both political parties face a dilemma. President Obama and the Democrats pretend that if they channel Teddy Roosevelt and go after the rich, all will be well and we can further extend middle-class tax cuts. But, of course, very progressive taxation can't support modern government—not because the rich can't pay more, but because most income in the economy resides with that 80 percent of the

population that is neither poor nor rich.

Meanwhile, Republicans want to substitute incomplete math with new math. How can they possibly demand a huge amount from the middle class without asking for similar sacrifices from the rich? Even if the red team agrees to cut spending on everyone, the rich wouldn't feel much of a pinch until they have to pay more taxes since government transfers don't make up a large portion of their income.

Both political parties are bucking the basic arithmetic that compels shared sacrifice by almost everyone. Let both parties aspire to the leadership qualities they admire in Teddy Roosevelt, but not under the delusion that the problems vexing larger government today are the same as the ones the most famous Rough Rider took on a century ago.