

In Class Warfare, Guess Which Class Is Winning

Ben Stein

NOT long ago, I had the pleasure of a lengthy meeting with one of the smartest men on the planet, Warren E. Buffett, the chief executive of **Berkshire Hathaway**, in his unpretentious offices in Omaha. We talked of many things that, I hope, will inspire me for years to come. But one of the main subjects was taxes. Mr. Buffett, who probably does not feel sick when he sees his MasterCard bill in his mailbox the way I do, is at least as exercised about the tax system as I am.

Put simply, the rich pay a lot of taxes as a total percentage of taxes collected, but they don't pay a lot of taxes as a percentage of what they can afford to pay, or as a percentage of what the government needs to close the deficit gap.

Mr. Buffett compiled a data sheet of the men and women who work in his office. He had each of them make a fraction; the numerator was how much they paid in federal income tax and in payroll taxes for Social Security and Medicare, and the denominator was their taxable income. The people in his office were mostly secretaries and clerks, though not all.

It turned out that Mr. Buffett, with immense income from dividends and capital gains, paid far, far less as a fraction of his income than the secretaries or the clerks or anyone else in his office. Further, in conversation it came up that Mr. Buffett doesn't use any tax planning at all. He just pays as the Internal Revenue Code requires. "How can this be fair?" he asked of how little he pays relative to his employees. "How can this be right?"

Even though I agreed with him, I warned that whenever someone tried to raise the issue, he or she was accused of fomenting class warfare.

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"There's class warfare, all right," Mr. Buffett said, "but it's my class, the rich class, that's making war, and we're winning."

This conversation keeps coming back to mind because, in the last couple of weeks, I have been on one television panel after another, talking about how questionable it is that the country is enjoying what economists call full employment while we are still running a federal budget deficit of roughly \$434 billion for fiscal 2006 (not counting off-budget items like Social Security) and economists forecast that it will grow to \$567 billion in fiscal 2010.

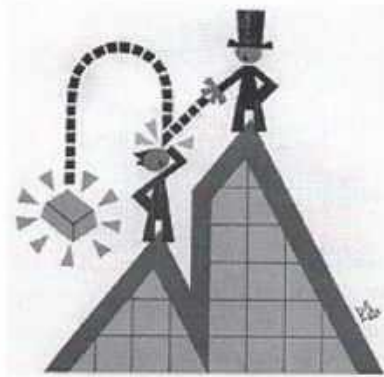
When I mentioned on these panels that we should consider all options for closing this gap — including raising taxes, particularly for the wealthiest

people — I was met with several arguments by people who call themselves conservatives and free marketers.

One argument was that the mere suggestion constituted class warfare. I think Mr. Buffett answered that one.

Another argument was that raising taxes actually lowers total revenue, and that only cutting taxes stimulates federal revenue. This is supposedly proved by the history of tax receipts since my friend George W. Bush became president.

Photo



Credit Illustration by Philip Anderson

In fact, the federal government collected roughly \$1.004 trillion in income taxes from individuals in fiscal 2000, the last full year of President Bill Clinton's merry rule. It fell to a low of \$794 billion in 2003 after Mr. Bush's tax cuts (but not, you understand, because of them, his supporters like to say). Only by the end of fiscal 2006 did income tax revenue surpass the \$1 trillion level again.

By this time, we Republicans had added a mere \$2.7 trillion to the national debt. So much for tax cuts adding to revenue. To be fair, corporate profits taxes have increased greatly, as corporate profits have increased stupendously. This may be because of the cut in corporate tax rates. Anything is possible.

The third argument that kind, well-meaning people made in response to the idea of rolling back the tax cuts was this: "Don't raise taxes. Cut spending."

The sad fact is that spending rises every year, no matter what people want or say they want. Every president and every member of Congress promises to cut "needless" spending. But spending has risen every year since 1940 except for a few years after World War II and a brief period after the Korean War.

The imperatives for spending are built into the system, and now, with entitlements expanding rapidly, increased spending is locked in. Medicare, Social Security, interest on the debt — all are growing like mad, and how they will ever be stopped or slowed is beyond imagining. Gross interest on Treasury debt is approaching \$350 billion a year. And none of this counts major deferred maintenance for the military.

The fourth argument in response to my suggestion was that “deficits don’t matter.”

There is something to this. One would think that big deficits would be highly inflationary, according to Keynesian economics. But we have modest inflation (except in New York City, where a martini at a good bar is now \$22). On the other hand, we have all that interest to pay, soon roughly \$7 billion a week, a lot of it to overseas owners of our debt. This, to me, seems to matter.

Besides, if it doesn’t matter, why bother to even discuss balancing the budget? Why have taxes at all? Why not just print money the way Weimar Germany did? Why not abolish taxes and add trillions to the deficit each year? Why don’t we all just drop acid, turn on, tune in and drop out of responsibility in the fiscal area? If deficits don’t matter, why not spend as much as we want, on anything we want?

The final argument is the one I really love. People ask how I can be a conservative and still want higher taxes. It makes my head spin, and I guess it shows how old I am. But I thought that conservatives were supposed to like balanced budgets. I thought it was the conservative position to not leave heavy indebtedness to our grandchildren. I thought it was the conservative view that there should be some balance between income and outflow. When did this change?

Oh, now, now, now I recall. It changed when we figured that we could cut taxes and generate so much revenue that we would balance the budget. But isn’t that what doctors call magical thinking? Haven’t the facts proved that this theory, though charming and beguiling, was wrong?

THIS brings me back to Mr. Buffett. If, in fact, it’s all just a giveaway to the rich masquerading as a new way of stimulating the economy and balancing the budget, please, Mr. Bush, let’s rethink it. I don’t like paying \$7 billion a week in interest on the debt. I don’t like the idea that Mr. Buffett pays a lot less in tax as a percentage of his income than my housekeeper does or than I do.

Can we really say that we’re showing fiscal prudence? Are we doing our best? If not, why not? I don’t want class warfare from any direction, through the tax system or any other way.

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