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# Fiscal policy silly season

Democratic tax proposals might hurt everyone if they pull the U.S. into recession.

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**BOTTOM LINE**

*We are 21 months away from the presidential election in November 2020 but already have a record 12 Democratic candidates who have announced they will run against President Trump—with perhaps a dozen more currently contemplating bids. The first debates aren't scheduled until June 2019, so how can these candidates and other Democratic thought leaders begin to differentiate themselves in the minds of voters?*

*Since the beginning of this year, we've seen a flurry of fiscal policy proposals intended to both provoke thought and swing the political pendulum to the left. But with significant improvements in employment, economic and corporate profit growth, inflation and financial-market performance over the past two-plus years, does a dramatic change in fiscal policy risk reversing the economic success we've enjoyed? Could this so-called "democratic socialism" pull the U.S. economy into recession in 2021-22?*

**A 70% marginal tax rate** Freshman Rep. Alexandria Ocasio-Cortez (D-N.Y.) recently proposed taxing annual incomes of more than $10 million at a 70% rate, a figure nearly double the current top level of 37%. The proceeds would fund her Green New Deal, which includes universal health care, a living-wage jobs guarantee for people "unable or unwilling to work," the elimination of the fossil-fuel industry (and its 1.4 million jobs) in favor of renewable energy, retrofitting existing buildings and abolishing airlines in favor of high-speed rail.

**How about 90%?** Not to be outdone, freshman Rep. Ilhan Omar (D-Minn.) is advocating for a 90% income tax rate on the top 1% of wage earners (those making roughly $600,000 per year), forcing them to pay their "fair share." She further proposes we strip the national defense budget ($686 billion in 2019) and allocate those resources to education, Medicare for All and the Green New Deal.

**Annual wealth tax of 2%** Presidential hopeful Sen. Elizabeth Warren (D-Mass.) has proposed this rate for those with assets more than $50 million and 3% for those with more than $1 billion. She estimates her plan would raise $2.75 trillion in government revenue over a decade. But figuring out the tax owed on closely held and illiquid family businesses, real estate and artwork for example, is much more complicated than taxing income and investments. Warren estimates that roughly 75,000 families will be subject to her annual wealth tax, requiring a sharp increase of the IRS budget to conduct the audits and compel compliance. Billionaire Michael Bloomberg says Warren's plan is "probably unconstitutional."

**Death tax revisited** Sen. Bernie Sanders (D-Vt.), running for president again, recently revealed his plan for a graduated increase in the tax on estates larger than $3.5 million, or the country's top 0.2%, by his estimate. At present, any estate below $11.4 million is exempt from the 40% estate tax and a married couple could shelter up to $22.8 million. Sanders' tiered increase amounts to a 45% tax on estates of $3.5-$10 million, 50% on those of $10-$50 million, 55% on estates of $50 million to $1 billion and 77% for those greater than $1 billion.

**Health-care makeover** Sen. Kamala Harris (D-Calif.), a first-term senator who also has thrown her hat into the presidential ring, is proposing a government takeover of the private health-care insurance industry, which would displace an estimated 500,000 private employees and force 180 million people to surrender their private medical insurance. While "Medicare for All" would not nationalize doctors, hospitals or the drug industry, it could increase the number of doctors who refuse to accept Medicare reimbursement and only will work for private payment in full. That could create a shortage of doctors to care for the newly expanded Medicare population.

**Outlaw share buybacks and dividends** Sen. Sanders and Senate minority leader Chuck Schumer (D-N.Y.) recently co-authored a proposal that would prohibit a corporation from buying back its shares or paying dividends to its shareholders unless certain preconditions were met. For example, the company must pay all workers at least $15 per hour, provide seven days of paid sick leave and offer decent pensions and reliable health-care benefits. But suppose these provisions make the company uncompetitive or unprofitable? Suppose the unintended consequence is that the company is forced to replace some of its hourly workers with technology to reduce labor costs? And not to be forgotten, share repurchase programs and dividend increases tend to raise the value of the company's stock, boosting the retirement wealth of these same employees.

**Soak the rich?** Based upon 2015 IRS data, the top 1% in America earned 20.7% of the nation′s income but paid 39% of the taxes; the top 10% earned 47.4% but paid 70.6% of the taxes and the bottom half of America earned 11.3% but paid 2.8% of the taxes. It appears to us that our tax code is already progressive, and that the successful among us are already carrying their so-called "fair share" of the tax burden.

Can we as a society do better, in terms of education, health care and a host of other important issues? Of course we can. But the solution, in our view, revolves around lifting up the bottom half through better education, training and job opportunities rather than potentially harming the incentives needed to work hard, save and invest, take risks, start businesses and create more jobs. To paraphrase Ronald Reagan, if we successfully focus on growing the pie, there will be larger slices for all to enjoy.

**Amazon leaves New York at the altar** Last week, Amazon broke its 3-month-old commitment to build a second headquarters in Long Island City, Queens. More than 200 cities across the country competed fiercely to woo the massive online retailer to build a $2.5 billion campus. New York offered up to $3 billion in tax incentives over 15 years in exchange for an estimated $27 billion in government revenue from Amazon over 25 years (a 9-1 ratio in New York's favor). Amazon planned to hire at least 25,000 workers over the next 10 years, with an average annual salary of $150,000 ($37.5 billion total in compensation), and it may have needed as many as 40,000 employees ($60 billion in total pay).

There's a multiplier effect here, of course, relating to construction, grocery stores, bars, restaurants, entertainment, dry cleaning, etc., which could have easily injected a total of $100 billion or more of desperately needed economic stimulus into a dilapidated section of Queens. This partnership should have been a slam dunk for everyone involved, and polling suggests some 60% of local residents approved of it. But Ocasio-Cortez, who represents Queens, was vocally unhappy with the $3 billion of incentives, and Amazon decided it didn't want the aggravation. In the wake of its decision, Newark, New Jersey, announced its $7 billion offer was still on the table, and we suspect Detroit, Pittsburgh and other cities that lost out to New York will do the same.

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