



FACTS & OPINIONS

On Public Interest Issues

Quotes

“If you enacted all of their proposals, you would be significantly worse off in 2021 than if the Congress and the president just went on a 10-year vacation..... It’s time to quit playing games with the numbers. They need to be honest with the American people.”

— David Walker,
former U.S.
Comptroller General,
September 20, 2011

“That some should be rich shows that others may become rich, and hence is just encouragement to industry and enterprise.”

— Abraham Lincoln,

“Any people anywhere, being inclined and having the power, have the right to rise up and shake off the existing government and form a new one. This is a most valuable and sacred right — a right which we hope and believe is to liberate the world.”

— Abraham Lincoln

An Excess Tax on Wealth Creation

by John Steele Gordon

“Obama Tax Plan Would Ask More of Millionaires,” reads the headline of the lead story in the September 18 *New York Times*. Nice touch that “ask” part, as if paying taxes were voluntary.

President Obama wants to invoke the “Buffett Rule,” named for multibillionaire Warren Buffett, who complains that his tax bill is too low because his effective rate is less than his secretary’s.

Buffett wrote in the *Times* last month, “. . . for those making more than \$1 million — there were 236,883 such households in 2009 — I would raise rates immediately on taxable income in excess of \$1 million, including, of course, dividends and capital gains. And for those who make \$10 million or more — there were 8,274 in 2009 — I would suggest an additional increase in rate.”

President Obama wants to require that everyone with an income of over \$1 million pay the same effective tax rate (the percentage of taxable income paid in taxes) as “middle-in-

come taxpayers.” He calls it a matter of “fairness.”

Well, let’s take the fairness lipstick off this pig. It has nothing to do with fairness, it has everything to do with class warfare. This would be nothing more nor less than a whacking great tax increase on capital gains and dividends on those who earn more than \$1 million a year. In other words, they would be penalized for their success at creating wealth.

It is a fact that people with seven- and eight-figure incomes from wages already pay 35 percent on most of that income, the highest marginal rate. It is dividends and capital gains (taxed at 15 percent) that bring down their effective tax rate.

But we all must understand that dividends are paid out of corporate profits that have already been taxed at 35 percent (ignoring various tax fiddles that bring down corporate income tax rates to an average of 25.4 percent).

So dividend income is actually taxed at 50 percent already.

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Focus on Iowa Wesleyan College

Filmmaker and director Ali Selim, writer and director of the film *Sweet Land*, will be presenting at Iowa Wesleyan on Wednesday, November 2, 11:00 a.m. in the Chapel Auditorium. He won the Film Independent Spirit Award for Best First Feature.

Sweet Land tells the story of Inge Altenberg, a German mail-order bride sent to Minnesota in the paranoid and nationalistic days following the First World War to meet her future husband, Olaf, a Norwegian bachelor farmer.

After encountering obstacles laid out for them by the government, the church, and the community, they finally are alone together in the same house and Inge cooks for Olaf. As he enjoys the meal that is unlike anything he has ever experienced, he asks, "Is this German food?" Inge replies, "No, just food."

When Inge says, "Just food," she is telling him to savor, find the common ground. As with all good food it satisfied, inspired, and nourished. So, he ate. And what came of this nurturing is the foundation of America.

"I thought it was an interesting love story more than anything, because of the language barrier they have," Selim says. "And I think it's a meta-

phor for most men and most women who speak an entirely different language and have to find something more than the intellectual power of words to communicate."

Selim has also directed a number of award-winning television commercials.

At Iowa Wesleyan, Selim will offer hard-won advice for emerging writers and filmmakers, as well as insight into the entertainment, business, television, and advertising worlds.

Other Campus News

The Southeast Iowa Band Concert will be November 13 at 3:00 p.m. in the Chapel Auditorium. Wesleyan Visit Day will be November 18, and we anticipate a large number of high school seniors and juniors visiting campus.

The semester will end with the "Jazzoliday" concert on December 8, at 11:00 a.m. featuring a wide variety of performers and jazz musical styles in a heartwarming Christmas holiday concert. For further information, including ticket prices, call 800-582-2383.

Earlier this fall the works of watercolorist Susan Johnston, formerly of Mount Pleasant, were on display in the Iowa Wesleyan College Art Gallery.

Johnston's husband, Bill Johnston, served as President of Iowa Wesleyan College for six years. They moved to Dover, Delaware, in 2008.

She has garnered numerous awards in both regional and national shows. The Iowa Wesleyan College Art Gallery is located at the main entrance to the P.E.O. Administration Building on North Main Street in Mount Pleasant. It is free of charge. Gallery hours are Monday-Friday, 8 a.m. to 5 p.m.

**Call 800-582-2383
for more information on
Iowa Wesleyan College.**

What's New at Public Interest Institute?

PII staff have had a busy summer, writing and publishing four new POLICY STUDIES, including:

#11-3, *Monopolizing and Derailing the Education Freedom Train* by Deborah D. Thornton

#11-4, *The Harding-Coolidge Path to Prosperity: What Policymakers Can Learn From the 1920s to Solve the Budget Crisis and Create a Sound Economy* by John Hendrickson

#11-5, *The Benefits of Broadband: Connecting Iowa to the 21st Century Economy* by Dr. Don Racheter

#11-8, *"We Must Find Common Ground, Children's Lives are Wasting"* by Deborah D. Thornton

POLICY STUDIES #11-6, *Environmental Utopia: What Would Life be Like If the Environmentalists Were in Charge?* by Marita Noon of Citizens Alliance for Responsible Energy, and #11-7, *Replace the Job Killing Corporate Tax with a Border-Adjusted Consumption Tax*, by Tom Pauken, Chairman of the Texas Workforce Commission.

All staff, and several family members (who volunteered!), attended the Iowa Republican Party Straw Poll on August 13 in Ames, Iowa.

Facts & Opinions Question of the Quarter:

Should millionaires pay more in taxes? Should you?

Send your thoughts on this issue to us at
Public.Interest.Institute@LimitedGovernment.org.
We may publish some of your ideas in the next issue
of *Facts & Opinions* in January 2012 and on our Website at:
www.LimitedGovernment.org.

At the Straw Poll we gave out almost 3,000 PII/Iowans for Tax Relief tote bags filled with articles and materials offering positive solutions and alternatives to state policy issues, encouraging economic freedom, and promoting the role of the private sector in our society.

In addition, on Thursday, August 11, Dr. Don Racheter, President of PII, participated in a "Pre-Debate Luncheon" jointly sponsored by PII and the Heritage Foundation. The luncheon, "Issues that Matter to Conservative Voters," was well attended.

Other panel participants included Mike Franc, Vice President of Government Studies from Heritage, and Robert Haus, Vice President of Public Affairs for Policy Works. It was moderated by Amy Walter, the ABC News Director.

Dr. Racheter continued with a busy schedule, attending the State Policy Network annual meeting in Seattle, Washing-

ton. Materials and information from this event will find their way into our work over the next year.

Racheter then spoke to a Tea Party group in Dubuque, Iowa on issues of concern to voters in the upcoming Presidential election.

Research Analyst John Hendrickson is co-teaching a Global Issues class at Iowa Wesleyan College this semester.

Research Analyst Deborah Thornton has been a guest on several recent radio shows, including with Tamara Scott on 1040WHO in Des Moines.

PII staff also worked at the Iowa State Fair, at the Heritage Foundation booth distributing free-market materials to fairgoers.

As always, if you would like a staff member to present at a meeting or conference, please ask. We are available!

All of our publications, including *Facts & Opinions*, are available for sponsorship. Sponsoring a publication is an excellent way for you to show your support of our efforts to defend liberty and define the proper role of government.

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The Fog of Medicare by Tevi Troy

“If you look at the numbers, then Medicare in particular will run out of money, and we will not be able to sustain that program no matter how much taxes go up. It’s not an option for us to just sit by and do nothing.”

— President Barack Obama, July 11, 2011, Press Briefing

If you wonder what the central issue of the 2012 election will be, Congresswoman Nancy Pelosi (D-CA) has a three-word proposal: “Medicare, Medicare, Medicare.” In a front-page profile in the *Washington Post*, the former Speaker of the House stated that the health-insurance program for the elderly would occupy all three slots in her list of the top three priorities. For those who care about the health of America’s seniors and the fiscal health of the nation, this is not good news.

Recent statements and actions by Pelosi and other Democrats reveal that they believe that making political use of Medicare is more important than ensuring healthcare availability for senior citizens.

History shows that the hunger to be simultaneously on offense and defense — fighting aggressively against efforts at reforming Medicare in order to save it — may well succeed in undermining any prospects for

meaningful reform and further poison the relations between the two parties.

In contrast to President Obama’s statement in July, the eagerness to exploit the politics of Medicare is clearly influencing the Democrat Party’s approach to policy.

The *Washington Post* recently reported that Senator Patty Murray, chairwoman of the Democratic Senatorial Campaign Committee (DSCC) — and newly appointed Democrat co-chair of the deficit reduction super committee — is working behind the scenes to stop any Democrat compromise or effort to reform Medicare.

A source close to Murray described her political rationale: “We shouldn’t be giving away our advantage on Medicare.... We should be very careful about giving away the biggest advantage we’ve had as Democrats in some time.”

For Democrats, the Medicare “advantage” means rekindling the politics of the 1990s, when they teamed up with a Democrat president to turn Republican attempts to reform Medicare from an honest debate into a decisive victory against conservatives. This “advantage,” as Murray sees it, means ignoring the Medicare trustees who have warned that the long-term liability of Medicare is in the neighborhood of \$30 trillion. It also means

ignoring the lessons of Greece, Portugal, and Italy, whose unsustainable entitlement programs are sending shockwaves throughout the world.

Democrats have good reason to see Medicare-based attacks as a path to electoral success. Looking at the history of such attacks over the last 30 years reveals a landscape littered with the bodies of those who got on the wrong side of what the late columnist William Safire dubbed “Mediscare.”

Safire defined it, back in 1995, as a “shamelessly demagogic campaign to frighten older Americans into thinking that deficit reduction might soon leave them destitute in the snow, and to bamboozle them with pie in the medical sky.” This sorry conduct also explains why and how Medicare ended up as a program in crisis that could sink the nation’s economy.

The term was used to describe Bill Clinton’s attacks on Newt Gingrich’s Congress, but the use of the tactic goes back further, to Jimmy Carter and the 1980 election. Carter charged that, in the 1960s, Ronald Reagan opposed the creation of Medicare and that as president he would be a poor steward of the program.

As Jim Lehrer describes in his new book about presidential debates, the sole 1980 presidential debate came to a head on “a

of individuals like you who believe in individual liberty and free-market solu-aid envelope to make your tax-deductible contribution to this effort today.

proposal concerning Medicare and Carter's repeated charge that Reagan had opposed even its original creation on the grounds that it was socialized medicine."

On the subject, Carter said, "Governor Reagan again, typically, is against such a proposal." Reagan's response began with four words that devastated Carter's chances of reelection: "There you go again." Years later Carter was still bitter about the way things played out, however he did not express any regrets about attempting to make dishonest use of Medicare.

Brilliant Viciousness

The brilliant viciousness of "Mediscare" is that it implicitly accuses your opponents of evil, selfishness, and hatred of the elderly. Reagan's response, which combined exasperation with calm disagreement, destroyed Carter's accusation because he, at 69, was one of them. Reagan followed his retort with a simple statement that he favored alternative legislation that would have been more fiscally responsible.

In 1980, Medicare was only in its adolescence, having been signed into law in 1965, and the extent of the fiscal challenges were not yet apparent. By the 1990s, however, things had changed, as the program that was originally projected to cost only \$12 billion in 1990 had already surpassed \$100 billion in spending annually.

Medicare expenditures grew at roughly 2.4 times the rate of inflation in the period from 1975 to 1990 — when

overall inflation was already high.

By 1994, Medicare had become a significant part of federal spending. Today, Medicare and Medicaid constitute a staggering 23 percent of the federal budget.

No effort to control budget deficits, then or now, can be taken seriously without taking Medicare into serious consideration. In the aftermath of their electoral triumph in 1994, the Gingrich Republicans saw an issue that had to be addressed, and they sought to put controls on the growth of Medicare spending. And in this, Democrats saw an opportunity to gain political ground.

According to Gingrich, who endured the brunt of the attack in the 1995–1996 "Mediscare" wave, the Democrats "attacked Republicans in thousands of ads" on the issue. The nature of the attacks will sound familiar; they're still being used today.

For example, Bill Clinton claimed that Republicans wanted to let Medicare "wither on the vine." Clinton press secretary Mike McCurry argued in 1995 that "the reason they're trying to slow the rate of increase in the program, I suppose, is because eventually they'd like to see the program just die and go away. You know, that's probably what they'd like to see happen to seniors, too, if you think about

it."

Even the pre-Fox News White House press corps thought this was a bit much. The official transcript from the briefing at the Clinton Library records the press reaction as "Que.: Ooooooooh!" McCurry, chastened somewhat by the "Ooooooooh!" backtracked only slightly, saying, "What they want to do is move this very important program that is a life line for many elderly, which provides them necessary resources to get medical attention. And they want to shift things over to private-sector arrangement in the belief that people will fend for themselves better than if they have [a] helping hand from government."

The "Mediscare" campaign stopped the momentum of the Republican Revolution and helped get Clinton reelected in 1996. This in turn diminished the threat of Gingrich and his ideas, and after Gingrich was deposed as Speaker after the 1998 election, the Republican Congress became more wary of taking on Medicare and other third-rail political issues. Republicans acted in the elections that followed 1996 as though they would do almost anything to avoid another "Mediscare" assault.

So it is no surprise that "Mediscare" is once again the approach Democrats plan to pursue for 2012. While the battles over ObamaCare provide evidence that Republicans can push back and win on the health-care issue, conventional wisdom argues that the GOP cannot win on the narrower issue of Medicare.

Have you renewed your membership with Public Interest Institute?

Take, for example, the Democratic reaction to Congressman Paul Ryan's honest and reasonable proposal to reform Medicare.

Congressman Ryan's Medicare Reform Plan

In April, Ryan proposed a "premium support" plan to restructure Medicare to make it fiscally sustainable. Ryan is the most thoughtful and articulate Republican on budget issues, and the plan he created is far from a radical one.

Ryan's plan was a proposal developed with former Clinton Office of Management and Budget Director Alice Rivlin, who is a Democrat grand dame on budgetary issues. Rivlin's participation in the plan's development should signal that it is not nearly as frightening as either Democrats or the media are making it out to be.

The basic outline of the Ryan plan is as follows. Future, not current, retirees will get a list of guaranteed coverage options for Medicare provided by private-sector insurance companies and will choose one.

Seniors will also get federal support for the premiums they pay into the plan they choose. Wealthier individuals would receive less support than would lower-income individuals. Medicare would also provide additional assistance to both lower-income recipients and seniors with greater health risks.

This innovation — linking support to both economic and health needs — would correct a serious flaw in the current structure of Medicare. Right now, seniors currently are promised, and receive, Medicare hospital benefits regardless of income level. This means that Medicare's Part A does not distinguish between Warren Buffett and an impoverished

widow. And we know that Buffett wants the wealthy to pay more and that President Obama supports this approach.

Medicare currently spends billions of dollars on seniors who do not need government help to pay their medical bills. This is done to maintain the illusion that Medicare is an insurance policy on which people are collecting, and not an income transfer from younger taxpayers to the elderly. Shattering this illusion is one of the most politically explosive aspects of the Ryan plan.

There are other advantages to the Ryan plan as well.

Providing a fixed level of premium support to each senior would make federal health-care spending a predictable expenditure — thus ending the unknowable spiral of cost increases. It follows in the footsteps of the 2003 Medicare Part D prescription drug program by encouraging competition. Part D costs are under projected levels and it has proved extremely popular. Medicare Part D works.

Third, the plan will get the government out of picking and choosing medical services, and of rationing care. Under the plan, the government would pay for premiums, but seniors would make the coverage decisions, and seniors could choose to switch plans.

Mediscare Round Three

The "Mediscare" playbook was so obvious that the critics on the right anticipated it before the Democrat machinery even got started. While reviewing the Ryan plan for *National Review Online*, the Manhattan Institute's Paul Howard predicted that it would be greeted with "howls of outrage on Capitol Hill." He was right — and those howls have echoed

throughout the media.

Even the Democrat Party's more august members succumbed to the temptation to exploit the politics of "Mediscare."

Princeton professor Alan Blinder, a former economic advisor for President Clinton accused Ryan of creating a "Reverse Robin Hood Budget." If academics feel free to begin the discussion so stridently, why should party hacks show the slightest restraint? And they didn't.

After Texas Republican Representative Francisco Canseco voted for the Ryan Budget, the Democratic Congressional Campaign Committee aired a radio ad that asked listeners, "Did you know Congressman Francisco Canseco voted to end Medicare, forcing seniors to pay \$12,500 for private insurance, without guaranteed coverage? Tell Canseco to keep his hands off our Medicare."

Another ad featured a senior citizen moonlighting as a stripper at a bachelorette party in order to pay for his health-care costs after Republicans "end Medicare."

Off-the-cuff remarks from Democrat operatives have also been laden with absurd metaphors, such as "playing chicken to advance their extreme plan to end Medicare." Another said, "Republican leaders are now full speed ahead on a partisan plan that would dismantle Medicare for seniors."

The plan does nothing of the sort — everyone currently receiving Medicare will continue to receive it, as will everyone who is now 10 years away from retirement age. No matter. Democrats believe that this line of assault will put them back in power and save the 2012 elections.

Although this history gives Democrats cause for optimism, Republicans may have a chance at fighting back against a “Mediscare” campaign because of the Democrats’ own actions.

ObamaCare includes cost-cutting measures such as the creation of the Independent Payment Advisory Board (IPAB) and Comparative Effective Research (CER). Both of these represent attempts to manage the practice of medicine in the United States from the top down, in a spectacularly heavy-handed way — by denying people life-extending treatments. And from a fiscal perspective, ObamaCare seeks to save Medicare money only in order to put it toward other public health-care spending, not senior citizens.

Medicare Must Be Reformed

In the past, the no-change Democrats had an unbeatable edge in the “Mediscare” wars. Today, however, there is mounting and frightening evidence that buried heads in the sand cannot solve the enormous fiscal problems Medicare faces.

Over the past two years, we have seen an increasing recognition on the part of the American people that Medicare shortfalls are creating an undeniable threat to our nation’s fiscal well-being.

The deficit for just this one program — \$39 billion this year alone — is greater than the entire \$35 billion deficit of Greece. Greece’s national insolvency is minuscule when compared with the colossus of Medicare spending.

Medicare trustees themselves have warned of the \$30 trillion long-term liability: “If Congress continues to override the statutory decreases in physician fees, and if the reduced price increases for other

health services under Medicare become unworkable and do not take effect in the long range, [this] would substantially increase the strain on the nation’s workers, the economy, Medicare beneficiaries, and the Federal Budget.”

Even President Obama, quarterback of the “Mediscare” effort, has acknowledged the enormity of our fiscal problem, saying, “If you look at the numbers, then Medicare in particular will run out of money, and we will not be able to sustain that program no matter how much taxes go up.” He added, “I mean, it’s not an option for us to just sit by and do nothing.”

Obama’s chief of staff, William Daley, said on ABC’s *This Week* that “Medicare’s got to be strengthened. It will run out of money in five years if we don’t do something.”

Obama and his lieutenants may make that point, but they have failed to propose reforms, knowing that it is far easier to knock down Republican proposals than to offer serious but politically risky reforms of their own.

Obama is trying to have it both ways, posing as the nation’s responsible fiscal steward, while at the same time leading a campaign predicated on both opposing serious reform and refusing to offer alternative approaches.

And so, even as the administration’s leaders acknowledge the absolutely desperate state of Medicare’s finances — while refusing to suggest ways to solve the problem — they are steadily on the political attack on behalf of the misleading notion of “saving Medicare as we know it.”

The next election will test Republican resolve to get the country on a more responsible track, and test the basic honesty

of Democrat leaders when they are called to account for the fiscal disasters that lie in wait if Medicare is not reformed.

And the American people will be tested as well.

Will they be able to see through the fog of “Mediscare” to the very simple fact that a program designed with the best of intentions could have the most catastrophic of results—the fiscal collapse of the country itself?

Reprinted with the author’s permission from *Commentary Magazine*, September 2011, <<http://www.commentarymagazine.com/article/the-fog-of-mediscare/>>.

Tevi Troy is a senior fellow at the Hudson Institute and the former Deputy Secretary of Health and Human Services. As Deputy Secretary from 2007-2009, Dr. Troy was the chief operating officer of the largest civilian department in the federal government, with a budget of \$716 billion and over 67,000 employees. In that position, he oversaw all operations, including Medicare, Medicaid, public health, medical research, food and drug safety, welfare, child and family services, disease prevention, and mental health services.

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A large portion of capital gains, likewise, derives from retained corporate income that has already been taxed.

So President Obama's latest tax proposal is just a disguised attempt to raise the dividend and capital gains taxes on those with incomes of more than \$1 million to about 70 percent from the current 50 percent.

The result, of course, will be a rush to avoid these taxes, using exactly the same method that Warren Buffett uses to avoid paying them: they'll shelter their wealth under a corporate umbrella.

Warren Buffett's Berkshire Hathaway Corporation paid \$5.6 billion in corporate taxes last year on income of \$19 billion, a 29 percent rate. (By the way, its tax form ran to 14,097 pages; just imagine what its tax compliance costs must have been.)

Warren Buffett owns about

30 percent of Berkshire Hathaway, so he, in a very real sense, paid not just the \$6 million in federal taxes he claimed in his *Times* article, but \$1.68 billion more in the form of corporate taxes.

But Berkshire Hathaway pays no dividend and I doubt that Buffett has sold any of his stock in the company. Thus he has no capital gains to report from his Berkshire Hathaway holdings.

So while he paid, roughly, the same effective tax rate as his secretary – if you count his share of the corporate taxes paid (and you should), he would not owe much more under President Obama's stick-it-to-the rich plan. Most of his billionaire friends wouldn't either.

Those most affected would be the upper middle class, as usual, who don't control the corporations they invest in.

Fairness, Mr. President?

Reprinted with permission of the author from *Commentary Magazine*, September 18, 2011, <<http://www.commentarymagazine.com/2011/09/18/a-tax-on-excess-wealth-creation/>>.

John Steele Gordon attended Vanderbilt University, graduating with a B.A. in history in 1966. He has been writing on business and economic history for over twenty-five years. He is the author of seven books including An Empire of Wealth, a history of the American economy.

He currently writes a column on business history for Barron's called "The Long View" and other op-ed articles for The New York Times and The Wall Street Journal.