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**February 27, 2009****ECONOMIC SCENE**

## **A Bold Plan Sweeps Away Reagan Ideas**

**By [DAVID LEONHARDT](#)**

The budget that [President Obama](#) proposed on Thursday is nothing less than an attempt to end a three-decade era of economic policy dominated by the ideas of [Ronald Reagan](#) and his supporters.

The Obama budget — a bold, even radical departure from recent history, wrapped in bureaucratic formality and statistical tables — would sharply raise taxes on the rich, beyond where [Bill Clinton](#) had raised them. It would reduce taxes for everyone else, to a lower point than they were under either Mr. Clinton or [George W. Bush](#). And it would lay the groundwork for sweeping changes in health care and education, among other areas.

More than anything else, the proposals seek to reverse the rapid increase in economic inequality over the last 30 years. They do so first by rewriting the tax code and, over the longer term, by trying to solve some big causes of the middle-class income slowdown, like high medical costs and slowing educational gains.

After Mr. Obama spent much of his first five weeks in office responding to the financial crisis, his budget effectively tried to reclaim momentum for the priorities [on which he campaigned](#).

His efforts would add to a budget deficit already swollen by Mr. Bush's policies and the recession, creating the [largest deficit](#), relative to the size of the economy, since World War II. Erasing that deficit will require some tough choices — about further spending cuts and tax increases — that Mr. Obama avoided this week.

But he nonetheless made choices.

He sought to eliminate some corporate subsidies, for health insurers, banks and agricultural companies, that economists have long criticized. He proposed putting a price on carbon, to slow [global warming](#), and then refunding most of the revenue from that program through broad-based tax cuts. He called for roughly \$100 billion a year in tax increases on the wealthy — mostly delayed until 2011, when the recession will presumably have ended — and \$50 billion a year in net tax cuts for the nonwealthy.

The history of the United States economy over the last 70 years can be roughly divided into two periods: the decades immediately after World War II, when inequality plummeted, and the past three decades, when global economic forces and government policies caused it to soar. Mr. Obama is setting out to begin a third period that looks more like the first than the second.

That agenda starts with taxes. Over the last three decades, the pretax incomes of the wealthiest households have risen far more than they have for other households, while the tax rates for top earners have fallen more

than they have for others, [according to](#) the [Congressional Budget Office](#).

As a result, the average post-tax income of the top 1 percent of households has jumped by roughly \$1 million since 1979, adjusted for inflation, to \$1.4 million. Pay for most families has risen only slightly faster than inflation.

Before becoming Mr. Obama's top economic adviser, [Lawrence H. Summers](#) liked to tell a hypothetical story to distill the trend. The increase in inequality, Mr. Summers would say, meant that each family in the bottom 80 percent of the income distribution was effectively sending a \$10,000 check, every year, to the top 1 percent of earners.

Mr. Obama's budget reflects that sensibility. Budget experts were still sorting through the details on Thursday, but it appeared that various tax cuts and credits aimed at the middle class and the poor would increase the take-home pay of the median household by roughly \$800.

The tax increases on the top 1 percent, meanwhile, will most likely cost them \$100,000 a year.

"The tax code will become more progressive, with relatively higher rates on the rich and relatively lower rates on the middle class and poor," said Roberton Williams, a senior fellow at the Tax Policy Center in Washington. "This is reversing the effects of the Bush policies," he added, and then going even further.

And just as [Franklin D. Roosevelt](#)'s tax increases on the wealthy followed a stock market crash, which had already depressed their incomes, Mr. Obama's proposals — if they become law — would too. The combination has the potential to reverse a significant portion of the inequality trends of the last few decades.

But for the country to repeat the post-World War II pattern, the incomes of most families would also have to begin rising at a faster rate than they have since the 1970s. That outcome remains deeply uncertain. Economists who study economic growth say the American economy is [unlikely](#) to grow nearly as fast in coming years as in the 1950s and '60s.

Mr. Obama would try to lift the incomes of the middle class and poor through two main channels, administration officials said. The first is an overhaul of health care, meant to reduce the insurance premiums now taking a large bite out of many families' paychecks.

The details remain vague, but the budget begins paying for investments that would eventually allow [Medicare](#) officials to refuse to pay for medical treatment that does not show evidence of improving health. If successful, that change would [vastly reduce](#) the government's long-term budget deficit. It is also likely to bring down private health costs, since insurers typically follow Medicare's lead.

The other channel is education. Over the last three decades, the pay of college graduates has risen significantly faster than the pay of less-educated workers. Mr. Obama aims to move workers into the first category by increasing federal financial aid and simplifying the myriad of aid programs. In recent years, the United States has [lost its standing](#) as the country in which the largest share of young adults graduates from college.

“Low- and middle-income kids often don’t aspire to college,” [Peter Orszag](#), director of the [Office of Management and Budget](#), said Thursday. “They hear ‘\$40,000 tuition’ and think that’s impossible.”

There are still many outstanding questions about Mr. Obama’s efforts, starting with whether Congress will pass a budget that looks anything like his.

His proposals on health care are likely to meet stiff opposition from some doctors and insurers. Spending more money on financial aid — absent other changes to the education system — may not lift the graduation rate very much. And if the economy remains weak into next year, as many forecasters expect, Congressional Republicans will try to pin the blame on the looming tax increases on the affluent.

Whatever happens, though, it has been a long time since any president has tried to use his budget to shape the government and the economy quite as much as Mr. Obama did on Thursday. On that score, he and President Reagan have something in common.

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