

## The Economist reporting

AMERICA'S president sees himself as the champion of a fairer society. He decries an economy in which 95% of the gains of the recovery have flowed to the richest 1% of households, and in which social mobility has stagnated even as inequality has widened. He wants to narrow income gaps and build "ladders of opportunity" for those at the bottom. By and large, those are admirable aspirations. Ever more economists fret about America's skewed income distribution: the latest evidence suggests it is damaging to growth, whereas moderate redistribution is not.

The problem lies with Barack Obama's solutions, which are too timid and reliant on left-wing rostrums, such as a big increase in the minimum wage and more spending. He lambasts a tax code that benefits "special interests", but has not pushed for tax reform. He wants to invest more in the poor, but has shown no appetite to overhaul America's welfare state, many elements of which—from disability insurance that discourages work to ineffective training schemes—do nothing to boost economic opportunity, and often undermine it.

If he wants to counter America's economic stratification rather than just rail against it, Mr Obama needs to think again. He must get tougher with the Democrats in Congress, who see any reform of social spending as an attack on the poor. And he must reach out to the handful of prominent Republicans who have moved beyond their party's stale mantra that tax cuts are the answer to all ills, and produced clever proposals to help the working poor and reform the tax code. This year's budget, due to be unveiled on March 4th, would be a good place to start.

Progressive but perverse

Contrary to popular perception on the left, the main problem

with America's tax code is not its lack of progressivity. Because the federal government collects no value-added taxes, it relies far more on income taxes than other rich countries; these are paid disproportionately by the wealthy. But thanks to vast numbers of deductions, collectively worth more than \$1 trillion and mostly benefiting the wealthy, the tax code is far more distorting than it need be. An overhaul which scrapped these deductions and lowered marginal rates would improve its efficiency without undermining its fairness. That is what Dave Camp, the top Republican tax-writer in the House of Representatives, proposed on February 26th when he unveiled the boldest tax-reform plan in years.

Another priority is to overhaul entitlements—the government benefits, from pension payments to disability insurance, that operate on autopilot unless politicians reform them. Thanks to the swelling ranks of pensioners and rising health-care costs, 60% of America's social spending goes to elderly households, many of which are not poor. And ever more money is spent on disability payments, as a growing number of the long-term unemployed find ways to qualify as disabled and never work again.

Even the support schemes that are designed to encourage work perform less well than they should. The Earned Income Tax Credit (EITC), which tops up the income of the working poor, offers virtually no assistance to the childless. A bold progressive agenda would revamp it—and here, too, Republicans have some of the most intriguing ideas. Marco Rubio, a senator from Florida and presidential aspirant, has proposed replacing the EITC with a system of wage subsidies.

A third opportunity is the one Mr Obama pays most attention to: the “discretionary” social spending that Congress approves each year, from housing subsidies to training for the unemployed. Compared with other rich countries, America invests relatively little in areas that boost opportunity. Fewer children attend nursery school. The amount spent on “active labour market

policies” to get the jobless back to work is one-sixth of the rich-country average. More money here would be useful—so long as the extra spending is combined with reform. America has 47 federal training schemes, many of which overlap and few of which work. Here, too, Republican ideas—such as allowing states to take the lead—make sense.

With mid-term elections in November, the idea of Mr Obama joining forces with Republican reformers may seem fanciful. Many of the president’s allies will scoff at the prospect of reaching out to any members of a party mostly bent on thwarting him. Both sides will be tempted to hunker down and trade barbs. But if he wants to be remembered as a president who built ladders to the middle class instead of just talking about them, that is a temptation Mr Obama must resist.