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Beinhart's Body Politic: Trillion-Dollar Love

by Larry Beinhart May 1, 2013

The president squabbles with Congress. Pundits pundify. Ads claim 10 or 40 or 100 economists agree with my candidate or your candidate or their candidate.

Does our country have an economic policy?

Believe it or not, beneath all the noise, there is one. Not only that, since the early 1980s it has been remarkably consistent, whether Democrats or Republicans are in office. It can be summed up in a single phrase: The economic policy of our country is to reestablish the difference between the rich and the all the rest of us.

Nobody has actually said that.

Columnists in Forbes, commentators in the Wall Street Journal, and propagandists at the Cato Institute will shout that income inequality is what makes America as grrreat as Tony the Tiger, and anyone who complains is advocating degenerate socialism. But none of them will say that it has been our government's policy to make the rich richer, and to do so at the expense of everyone else.

The buzz words are "individual liberty, free markets, and peace" (Cato Institute); "free enterprise, limited government, individual freedom, traditional American values" (Heritage Foundation); "security, prosperity, freedom" (Hudson Institute); "growth" (Club For Growth); "liberate" (National Center for Policy Analysis); and still "more freedom" (Freedom Works).

But dressing up raw greed in Scarlett O'Hara gowns came in with the Founding Fathers. If you listened to Thomas Jefferson, to his followers, and to most of our historians, you'd hear about those yeoman farmers, "the most valuable citizens ... the most vigorous, the most independent, the most virtuous, and they are tied to their country and wedded to its liberty and interests by the most lasting bonds." But the actual economic policies of his party did little to help those fellows with one hand on the plow, the other turning the pages of a book. If Jeffersonian economic policies are stripped of their rhetoric about "liberty," and displayed as naked as slaves at auction, it becomes clear that they had a completely different purpose, to maintain the profitability and political power of that peculiar form of agribusiness that defined the American south—large plantations that depended on slave labor.

In economics, as elsewhere, words can mislead both the listener and the speaker. There is greater truth in actions and in their results.

Since 1980 we've had a massive distribution of wealth. From everyone else to the top. According to the CIA World Factbook, our income inequality is at true banana-republic levels. We rank between Uruguay and the Philippines. Income inequality in the United States today is greater than it was in 17th-century England.

Is this a case of a rising tide lifting all boats? The rich just getting a bit more, while everyone is getting their piece of the pie?

No. From 1975 to 2009, per capita GDP—what all of us together produced, divided by the number of people in the country—went up by 80 percent. But the measure of how much average people shared in that increased production, median income, only went up about 19 percent. All the rest got snatched. "The top one percent captured 58 percent of income growth since 1976 and 65 percent since 2002," according to DemandSideEconomics.net.

Back in the day, from 1945 to about 1980, the more people produced, the more they got paid. Not anymore. The increase in wages stopped, as dead in its tracks as a buck that took a bullet between the eyes. Productivity kept growing, pretty much at the same pace, but all the profits stayed at the top. How did this happen?

Were the new rich super-Steve-Jobs clever? No, there were folks quite as bright in the 1950s and '60s who created entire new industries. Did they catch a magic moment, like the Russian oligarchs snatching up their nation's wealth as Communism collapsed? There similar opportunities in post-World War II Europe. Did it happen "naturally"? By the working of "the market"? Through globalization? The maturation of emerging nations? International competition? The rise of importance of advanced education?

It happened because of government policies.

Most important, we cut taxes for the rich. Most obviously with the individual income tax rate. From 1944 to 1964 there was a tax rate of about 90 percent on the second million dollars of income (its equivalent, adjusted for inflation). From 1965 to 1981, it was 70 percent. It's obvious that once you got past your first million, there wasn't much incentive to go for 5, 10, or 300 million. Business owners and stockholders were downright reluctant to spend money in a way that just handed it over to the government. Once the top rate was cut, the lid came off, and executive compensation soared.

There were lots of other tax cuts for the rich and for corporations. As a matter of morality, motivation, and human value, it would seem natural that earned income, money that you work for would be taxed less than unearned income, that's inherited, or that arrives in the mail as dividends. But that's not the case.

Then there are loopholes. From 2008 to 2010, General Electric made $10 billion in profit (not revenues, not gross receipts: profit), and got a federal income tax refund of $4.7 billion. PGE&E had nearly $5 billion in profit, and got a rebate of $1 billion, giving them an income tax rate of minus 21 percent.

It's worth noting that we pay sales taxes on salt and bread, but not on stocks and bonds.

In 1981, the air traffic controllers went on strike. Ronald Reagan fired them. And refused to rehire them. In terms of labor relations, it was a weapon of mass destruction. The threat of it has virtually disarmed unions. So when management snatches all the productivity gains, working people can't fight back. No administration since has done anything to restore the balance of power.

Even more important is free trade. Workers from around the world, making a little as a dollar a day, began clamoring at the factory gates for American jobs. Management could threaten to move their facilities, and often did, or claim they would go out of business, and often did.

Then there's deregulation, privatization, and even the definition of things. If labor costs go up, that would be considered inflationary, and our declared economic policy is that we would have to clamp down on it. When a bubble forms in real estate, the stock market, or derivatives, which is a classic form of inflation, too much money chasing too few goods, it's not inflation.

If you still have any doubt that America's economic policy is to reestablish the supremacy of the very rich, and that rise of income inequality is the direct result of that policy, consider this: When the collapse came, US policy was to save the banks and screw everyone else. And it still is.