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Rearranging the deck chairs - Part II

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by Dave Cohen

In yesterday's post Rearranging The Deck Chairs, I alluded to the *surreal* quality of the current debate about Obama's proposed stimulus program to rebuild America's ~~roads & highways~~ infrastructure. But the debate about letting the Bush tax cuts expire is even more bizarre. The entire discussion is taking place without its proper context—the grotesque wealth & income inequality in the United States. Instead, the arguments center around future deficits, stimulating spending to achieve economic growth, the economic effects of taxes, etc. Talk about rearranging the deck chairs on the Titanic!

First, let's get the facts out of way. The Bush tax cuts were enacted in 2001 and 2003, and are due to expire at the end of this year. About 40% of the benefits went to "the tiny sliver of Americans earning over $500,000." If the tax cuts are reinstated, Greg David tells us what will happen—

> The issue, of course is the famous or infamous Bush tax cuts, which many charge b*enefited the wealthy disproportionately and increased the inequality between upper-income tax payers and everyone else*. The 2001 Bush plan actually reduced taxes for virtually everyone and eliminated millions of low-income Americans from paying any taxes.
>
> According to the Center for Tax Policy, 47% of Americans pay no federal income tax at all, in part because of the Bush tax cuts. The claim that the wealthy get all the benefits is based on the large amounts in dollars they save under current rates, although *if the Bush tax cuts were extended for 10 years, the cost would be $3.8 trillion, with $700 billion or so going to the richest people*.

President Obama has proposed extending the cuts for households making $250,000 or less ($200,000 for individuals) and ending the cuts for those making more than that. There is also a red herring to dispose of which has been floated by ~~lying bastard~~ less-than-truthful Republicans—

> One of the most common objections to letting the cuts expire for those in the highest tax brackets is that it would hurt small businesses. As *Sen. Orrin Hatch (R-Utah) recently put it, allowing the cuts to lapse would amount to "a job-killing tax hike on small business during tough economic times*."
>
> This claim is misleading. If, as proposed, the Bush tax cuts are allowed to expire for the highest earners, the vast majority of small businesses will be unaffected. *Less than 2 percent of tax returns reporting small-business income are filed by taxpayers in the top two income brackets -- individuals earning more than about $170,000 a year and families earning more than about $210,000 a year.*

Republicans also claim to be worried about the deficits, but plainly that's not the case when it comes to tax cuts for their rich friends.

OK, we've got the facts out of the way. Or perhaps I should say *we've examined the trees, so now let's look at the forest*.

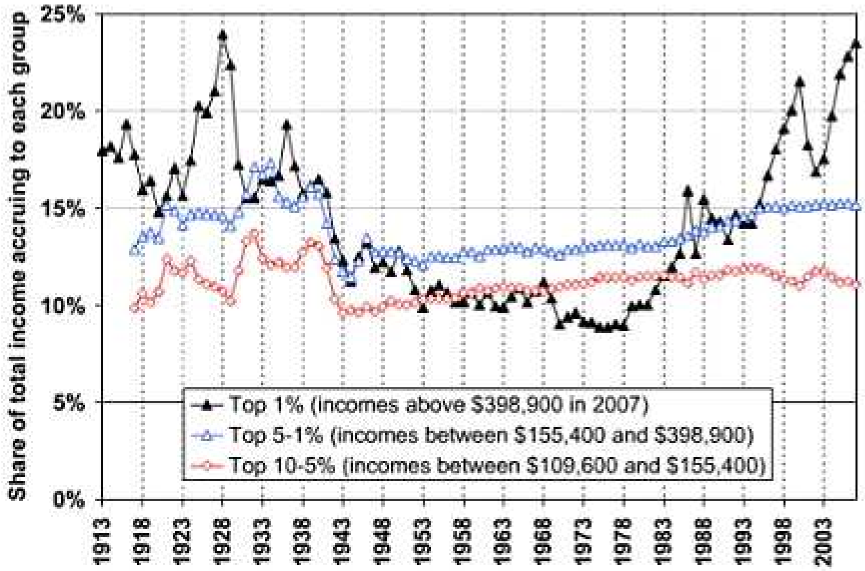
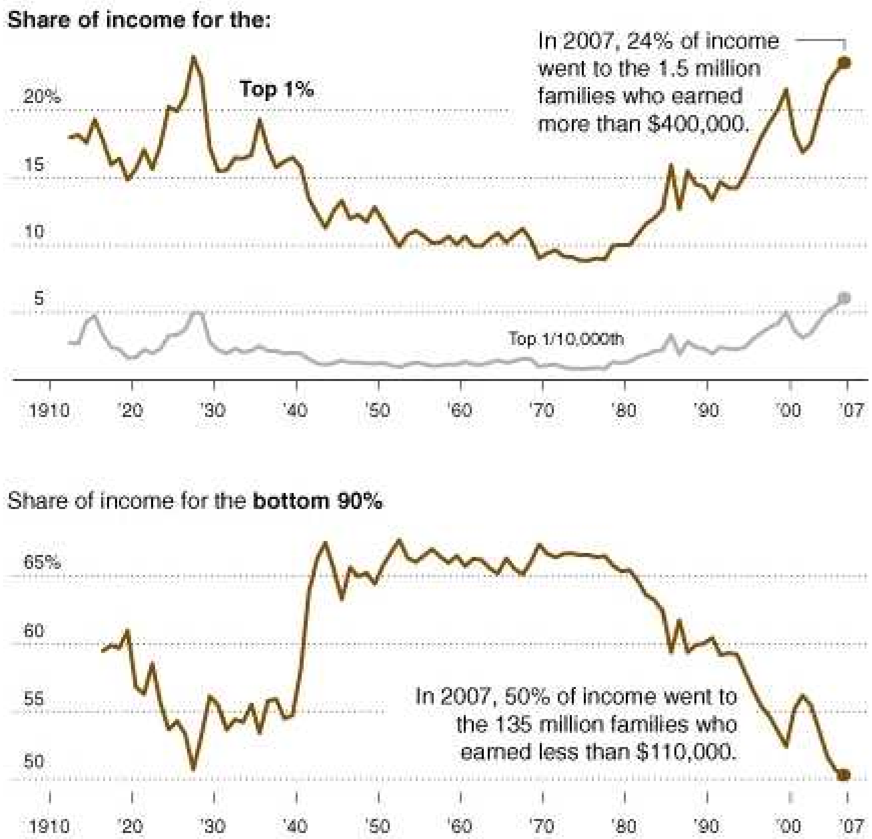


FIGURE 2

Decomposing the Top Decile US Income Share into 3 Groups, 1913-2007

Source: Piketty and Saez (2003), series updated to 2007.
Income is defined as market income including capital gains.
Top 1% denotes the top percentile (families with annual income above $398,900 in 2007)
Top 5-1% denotes the next 4% (families with annual income between $155,400 and $398,900 in 2007)
Top 10-5% denotes the next 5% (bottom half of the top decile, families with annual income between $109,600 and $155,400 in 2007).

Income share for the top 10% (decile) since 1913, compiled by Emmanuel Saez in his Striking It Richer. Income inequality is at its highest point since 1928 right before the Great Crash. Also note the steep rise after 2003.



From the New York Times based on the work of Saez and Thomas Piketty, a French economist. Look at the income share of the top 1% versus that of the bottom 90%.

This data leaves not doubt that as the rich get much richer, the Middle Class is going down the tubes. Just look at who's got all the money! It's so simple, what could be easier to understand? Yet keeping the Bush tax cuts for the very wealthiest Americans—mostly the top 1%, who made at least $398,900 in 2007—is a political football and nothing more. There's no sense whatsoever that America is going to hell in a handbasket.

It's as though you're not even allowed to *talk abou*t wealth & income inequality in America. It's *verboten*, taboo, off-limits! If you talk about it, you're acknowledging it, and if you acknowledge it, then you might have to do something about it.

Just how fucked up things are in this country really came home to me in a *PBS NewsHour* video about letting the Bush tax cuts expire (included below). This "policy decision" was talked about in the mostly meaningless terms I listed above (*e.g.* stimulating the economy). The *NewsHour's* Jeffrey Brown interviewed Heather Boucher, an economist with the Center For American Progress (pro-Obama) and Jeffrey Miron, an economist at Harvard (anti-Obama). It was these remarks by Boucher that brought the point home—

> Boucher — But I think again that the thing we have to remember is that [where] this economy is right now, *we are still in a situation where we don't have enough demand*. We see in survey after survey of small businesses is that they're not seeing enough sales. They're wondering where are the customers coming through my doors. *And so we need to target our policy response to help those small businesses see sales. And extending the tax cuts for middle class families will help put more customers in the door, in a way that targeting them at the top end simply will not do*.
>
> Brown — Of course the question is, why not end all the tax cuts, why not end it for the Middle Class as well. And your argument there goes to the deficit.

> Boucher — Well, certainly, but ***we know that folks in the lower and middle classes are more likely to spend every dollar that they get because they don't have a lot of wiggle-room, they don't have a lot of savings, they don't have a lot of excess money, so when they get that dollar, when they get to keep that extra dollar in those tax cuts, they'll be more likely to go out and spend it.***
>
> The folks at the very top, they've got a lot of excess resources, so they're not going to spend that full dollar.

That's right! Those folks in the Lower and Middle Classes, the ones without any money, are going to spend every dollar the government lets them keep because they're fucked! They can barely make ends meet! They're two missing paychecks away from abject poverty! They can't save any money because there's nothing to save. So out of sheer desperation, in a likely futile attempt to keep their shit together, these poor schmucks are almost guaranteed to spend that tax cut money, and in doing so, they will *stimulate* the economy. Because they have no choice!

But of course, that's not what Heather meant. Here's the video.

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