The Seventh Generation

"In our every deliberation, we must consider the impact of our decisions on the next seven generations."

—From The Great Law of the Iroquois Confederacy

The Austerity Scam

By Peter Marcuse

VERY SIMPLY, the United States is a rich country. It has a larger GNP than any other country in the world, and on a per capita basis, only Switzerland, Norway, Singapore and Luxembourg have higher. Austerity is not a characteristic of our private sector; our level of consumption, both gross and per capita, is higher than that of any other country. It is only in the public sector that there is talk of austerity, and even here not in every sector: our military expenditures are the highest in the world, and are effectively insulated by our political leaders from the budget cuts that they claim are needed elsewhere. Yet our present income tax code permits up to half a million yacht owners to deduct mortgage interest on the purchase of their yachts from their taxes—as these are considered a second home. There is no need for public austerity. It is a scam. The money is there to do everything we might reasonably wish to do, certainly enough to be able to continue to support those of our fellow residents who, through no fault of their own, are unemployed, sick, elderly, disabled or in need of assistance.

The money is there—but where? Ay, there's the rub. It is in the hands of one percent of our population, and they do not want to share it. The top one percent owns 35.6 percent of the nation's wealth, more than the bottom 90 percent, and it has 21 percent of the nation's income. The total wealth of the Forbes 400 richest Americans is $1,370,000,000—that's $1.37 *trillion*. The top 10 percent have a 48.2 percent share of the nation's income.

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The purpose of taxation is to raise money to permit government to do for us collectively what we cannot do for ourselves separately and alone. It is only fair that that burden of taxation should be distributed equitably. Paying $100 is immensely more of a major burden on someone earning poverty level wages than it is to a millionaire, for whom it's a flea bite. Hence we logically tax millionaires more than we tax poor people, and always have. How much more? Well, in fact, today, not very much more. The effective tax rate on the richest taxpayers was as high as 91 percent from 1950 to 1963, then over 70 percent through 1980, then over 50 percent until 1987. It's gone down steadily since then, and today it's only 35 percent—and that's only on those declaring income of over $379,150, or the top one percent of all households. The really rich don't pay anywhere near that amount in reality; the top 400 taxpayers ended up paying only 18.1 percent of their incomes in taxes in 2008, according to the IRS. In fact, 97.4 percent of those earning $200,000 or more pay less than the top rate, and 50 percent pay less than 20 percent. And in general, U.S. taxes as a percent of Gross Domestic Product are low—only 22.6 percent versus the average for all OECD countries, 35.5 percent.

Fear of running up the deficit is no reason for austerity. It's a scam, one to benefit the very rich at the expense of the very poor, as well as all the rest of us, neither very rich nor very poor, who rely on government to provide highways, public transit, help with medical bills, public education, disease control, police and fire protection, criminal justice or the protection of our environment.

Is there any plausible argument for austerity in the face of all this? The only one we hear is that to raise

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the taxes on millionaires will reduce their incentives to make money and thus create jobs that the rest of us need. But, on the face of it, that's nonsense. No hedge fund manager is going to trade less because his tax has gone up 2 percent, or 4 percent, or 6 percent—or any particular figure. On the contrary, it may be an incentive for him to work harder and keep making as much money as he made before. And that's assuming that hedge fund managers do create jobs; the evidence is rather that speculative trading and mergers and acquisitions destroy jobs, particularly in small businesses, replacing workers with machines and exporting jobs, both to increase profits. There are ways to help the small corner grocer, or the computer whiz kid, or the fledgling dress designer or the inventor in the garage get a start—without letting Bank of America off without paying *any* income tax, which is the situation we have today.

The reason we have budget deficits today is not that we spend too much, but that we tax unfairly and too little. It's not a spending problem, it's a revenue problem. Every time some politician tells us there's no money for this or that, this service must be cut, we can't afford that one right now, we should tell them, "So get the money, stop being afraid of those that insist on tax immunity for corporations and embarrassingly low tax rates for the rich, and then talk to us about what we can afford and what we can't." Of course, having said that, we still have to deal with the here and now, but not until we've said that.

And in the here and now, look at a few figures. The feared Social Security shortfall in 2030 could be simply eliminated by eliminating the cap of $106,800 above which no Social Security tax is collected. That's all it would take; it's simple. Corporate profits last year were $1,650,000,000,000—that's $1.65 *trillion*. A flat tax on corporate income, if it were really collected (maybe an alternative minimum tax such as individual taxpayers already pay) of only 10 percent would produce $1,650,000,000, or $1.65 billion a year. Two particularly attractive proposals are a Financial Speculation Tax, raising $77.4 billion a year, and a 5.4 percent surcharge on the incomes of millionaires, which would raise $53.2 billion. Either one of those would have been more than enough to make unnecessary the $38 billion in budget cuts the GOP imposed on the country in May 2011 as a condition of passing a budget for the following year.

Don't let them get away with the austerity scam. The chief executive of Viacom made $84,500,000 million—yes, that's millions!—before taxes last year, and that's without perks. There's enough wealth in this country to cover all our needs and then some, if it went around. It just needs to go around a little more. That would help most of us a lot, hurt a tiny fraction a tiny bit and probably help the economy a lot.

Of course, in practice, those whom we're dealing with may not have the power to rewrite the tax code. But we can say to them: "If you claim you're limited by necessary pubic austerity and we have to compromise, we'll talk about it as soon as you commit yourselves to push real hard for the tax reforms that will make it clear the austerity is a scam." And be clear: raising taxes on the rich *is* tax reform, and we shouldn't be reluctant to say so. Critical Planning begins with *exposing*, and has to end with *politicizing*, even if we need to *propose* for immediate action only what's presently realistically feasible. But coupled with any such short-term proposal should be a clear realization of what's needed in the long term, and the ability to convey this in a forthright and politically effective way.

Making it clear that talk of austerity is a scam should be part of that effort. P²

To read more about the issues in this article, the author recommends the following sources.

Holly Sklar and Scott Klinger, "Real Patriots Pay Taxes," *The Capitol Times*, July 4, 2011. http://host.madison.com/ct/news/opinion/column/article_1776299a-32ea-5f93-a110-eaf156730376.html

Chuck Collins, Allison Goldberg, Scott Klinger and Sam Pizzigati, *Unnecessary Austerity, Unnecessary Shutdown,* Institute for Policy Studies, Washington, DC, 2011. http://www.ips-dc.org/files/3053/unnecessary-austerity-unnecessary-government-shutdown.pdf

Demos, The Economic Policy Institute and The Century Foundation, *Investing in America's Economy: A Budget Blueprint for Economic Recovery and Fiscal Responsibility*, November 21, 2010. http://www.ourfiscalsecurity.org/storage/Blueprint_OFS.pdf

Citizens for Tax Justice, Tax Policy Center and the World Bank are also good sources for detailed data.