

## Taxes, Job Creators, and the Trickle-Down Myth

Ronald Reagan famously said, “The nine most terrifying words in the English language are, ‘I’m from the government and I’m here to help.’” Reagan’s use of the word *terrifying* was no accident. He was a masterful politician and knew exactly how to appeal to conservative fears. Key among those fears is that the government is a thug in a dark alley and taxes are its attempt to rob you of your hard-earned money. Government is a fundamentally wicked enterprise in your mind, and liberals who support public programs are therefore complicit in trying to steal from you. Of all the accusations leveled at liberals by conservatives, this one – which traces its origins to the 17<sup>th</sup> Century philosopher John Locke – is among the most perplexing. We liberals have no interest in stealing from *you*, because it isn’t about *you*. *We* pay taxes too, and it’s not because we enjoy being robbed or throwing our money away. In a democracy, the obligation to pay taxes is not theft, just as the obligation to stop at red lights is not slavery. In a democracy, we each consent to make shared sacrifices when we accept the obligations of citizenship, whether they take the form of paying taxes, obeying the law, or even sacrificing life and limb in the event of war. The United States ranked 27<sup>th</sup> out of the 30 OECD countries in 2008 in tax-to-GDP ratio (a measure of total tax burden), at 26.9 percent.<sup>8</sup> Compare that to Denmark at 48.3 percent and Sweden at 47.1 percent.<sup>8</sup> The few countries without income taxes such as Kuwait, Bahrain

and Qatar are hardly sterling examples of democracy. Taxes are the way we come together and pool our resources in order to pay for the common project of a civilized society. Without taxes, only wealthy neighborhoods would have paved roads and clean water, and only the children of the rich would receive vaccines and a quality education. Indeed, this stark picture of inequality describes all too many real places in the world today.

It is ironic that you want to “take our country back” and return to the bygone economic Golden Era of the 1950s, 1960s and 1970s. Those were years when the top marginal tax rate was between 70 percent and 90 percent – the highest in our history – and when as much as 35 percent of the American workforce was unionized.<sup>9,10</sup> The reason we remember those years as a Golden Era is because the benefits of booming economic growth were captured as never before by the lower and middle classes. In the 30 years since the Reagan Administration first slashed taxes, however, the growth of the middle class has flat-lined and real wages have stagnated. While our overall economy has continued to grow, virtually all of the wealth created since 1980 has been captured by the richest 20 percent of Americans.<sup>11</sup> In the meantime, millions of jobs have been offshored to less developed countries where labor is cheap and environmental and safety regulations are nonexistent.

Conservatives tirelessly insist that lowering taxes on the wealthy and on corporations creates jobs, but this is a cruel farce. According to the Federal Reserve Board,

the US economy was host to \$150 *trillion* in financial assets in 2010, around half of which resides in the domestic financial sector.<sup>12</sup> To get an idea of how vast a sum \$150 trillion is, consider that you can carry \$1 million worth of hundred-dollar bills in a briefcase but you would need a million of those briefcases to equal \$1 trillion – enough to cover an entire football field to a depth of 10 feet. Now imagine a stack of 150 of those football fields, taller than the Empire State Building. This should give you a sense of the staggering amount of capital invested in the American economy at any given time. But how much of that investment is actually incentivized by lower taxes? Venture capital – precisely the kind of investment in innovative new businesses that conservatives say we must lower taxes to encourage – provides an instructive example. The tax burden on American investors is at its lowest point in over 50 years, and yet total US venture capital investment in 2010 amounted to just \$24 billion – a mere 0.04 percent of the domestic financial sector. That is one penny for every \$25. At the same time, corporations were posting record-breaking profits while sitting on \$2 trillion in uninvested *cash*. Unemployment, meanwhile, hovered just under 10 percent. If lower taxes were indeed the solution to all of our economic woes, why did the seven years of conservative tax cuts under President George W. Bush culminate in the Great Recession instead of another economic Golden Era? Why didn't investors who were enjoying the lowest tax burden in half a century create any jobs?

The answer is that investors don't create jobs. *Consumer demand* creates jobs. Consumer demand is what compels companies to hire employees in order to produce goods and services. Without consumer demand, there is no incentive to expand production capacity and therefore no need for new employees. If a company can build 10,000 widgets per month but can only sell 5,000, why would it spend money on new factories and workers?

Consumer demand comes from the middle class. After all, it isn't our 412 billionaires that buy trainloads of new cars and dishwashers and blue jeans and laptop computers every year, nor is it the 45 million Americans living below the poverty line who struggle just to put food on the table. The middle class is the real engine of our economy. Henry Ford famously realized that he could *create* consumer demand by paying his employees well enough to become customers themselves. It is a tragic irony that conservatives have forgotten this important lesson. By supporting policies that are an assault on the middle class you are destroying jobs, not creating them. The trickle-down economy of the last three decades has been a wretched failure whose long years of eroding the middle class have finally come home to roost, and as liberals have known all along it was nothing but a ruse to line the pockets of the rich. After all, the ruse has been used before. The eminent Harvard economist John Kenneth Galbraith, author of more than 30 books and hundreds of scholarly articles, noted that previous generations called trickle-down theory “horse-

and-sparrow” theory because “if you feed the horse enough oats, some will pass through to the road for the sparrows”.<sup>13</sup>

To our great shame, this old ruse has once again been fantastically successful. *Shame* is the appropriate word because the outrageous disparity of wealth between the richest and poorest Americans is a national disgrace. In 1980 the CEOs of large corporations earned 42 times as much as the average worker; in 2010 they earned 343 times as much.<sup>14</sup> Today, the 400 richest Americans own as much wealth as the poorest 160 *million* Americans, or half of the entire US population combined. Bill Gates and Warren Buffett, the two richest Americans in 2010, each have a net worth of over \$50 billion. Over the course of his adult working life, assuming a 60-hour work week, Bill Gates has earned an average of over \$530,000 *per hour*. That is \$150 *per second*. If Bill Gates saw a \$100 bill on the ground while walking to his office, it wouldn't be worth his time to stop and pick it up. Warren Buffett has had a longer career, but he has still managed to earn more than \$2 million *per day* for every day of his adult life.

This is not to say that rich people are bad people. It is our system that is broken. In fact, some of the very richest Americans – including both Bill Gates and Warren Buffett – are not only active philanthropists but have started to speak out against the folly of lowering taxes on the wealthy as well. In a 2011 op-ed column in the New York Times, Warren Buffett wrote, “I have worked with investors for 60 years and I have yet to see

anyone ... shy away from a sensible investment because of the tax rate on the potential gain. People invest to make money, and potential taxes have never scared them off.”<sup>15</sup> Buffett calls for taxes to be raised not on ordinary Americans like you and me, but on the richest 0.3 percent: “I would raise rates immediately on taxable income in excess of \$1 million, including, of course, dividends and capital gains. And for those who make \$10 million or more ... I would suggest an additional increase in rate.”<sup>15</sup> Buffett closes his article by saying, “It's time for our government to get serious about shared sacrifice.”<sup>15</sup>

Buffett has often pointed out that, thanks to conservative policies, he pays a lower tax rate than his secretary who earns \$60,000 per year. It should be clear from his secretary's annual salary, which Buffett earns every *13 minutes*, that this is hardly a man in the business of giving away hand-outs. What does it tell us about the crisis that conservative tax policies have created when someone like Warren Buffett says it is time to raise taxes?