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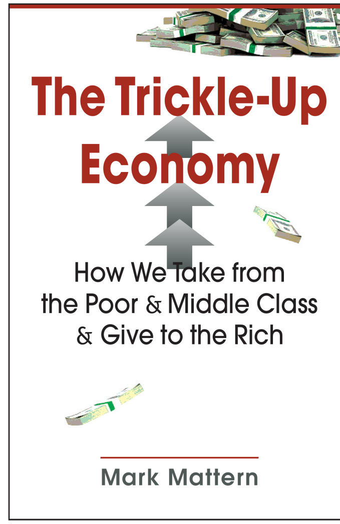
The Trickle-Up Economy: How We Take from the Poor and Middle Class and Give to the Rich



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Contents

1

Trickle-Down Economics: Myths and Fairy Tales

One of the most durable myths of US political econ-omy is that we take from the rich and give to the poor. The only relevant questions are how much this penalizes the rich for their hard work and how much it rewards the undeserving poor. This book tells a different story. *The Trickle-Up Economy* shows how we take from the poor and middle class and give to the rich.

The US political economy has always distributed income and wealth unequally. Since approximately the 1970s, however, the magnitude of inequality has surged. The trend toward greater inequality has been well documented and analyzed.[1] Rather than repeat those analyses, this book highlights some of the major causes of the upward redistribution of income and wealth in the United States, past and present.

Most Americans know that inequality is a defining characteristic of life in the United States. How could they not know, with constant reminders in a multitude of media of the fabulous lives of the rich and powerful, in stark contrast to their own struggles to stay afloat? Just how unequal has it gotten? A few preliminary illustrations are warranted (all figures are adjusted for inflation):[2]

- The average income of the top 0.1 percent in 2018 was $7,225,746, compared to $36,797 for the bottom 90 percent.
- Since 1979, the before-tax incomes of the top 1 percent of US households have increased nearly seven times faster than those of the bottom 20 percent.
- Since 1970, the top 1 percent has doubled its total income share from 11 to 22 percent, while the official poverty rate has held steady at 10 to 14 percent.
- The average real incomes of the top 1 percent rose 5.7 percent annually from 1978 to 2015, while the average real incomes of the bottom 50 percent rose 0.0 percent.
- Between 1980 and 2014, the top 1 percent saw income gains of 205 percent, and the top 0.001 percent saw gains of 636 percent, while the average pretax income of the bottom half of the individual income earners stagnated at approximately $16,000 per adult.
- In 2019, three men (Warren Buffett, Bill Gates, and Jeff Bezos) owned more wealth than the bottom half of Americans.
- In 2016, the average household wealth of the top 1 percent was $26,401,000. For the bottom 40 percent of US households, it was –$8,900.
- The richest 5 percent of Americans own two-thirds of all wealth in the United States, while the bottom 90 percent owns just 20 percent.

In short, income growth has been negligible for fully half of the US population for over a generation, while for the richest Americans it has expanded dramatically. The bottom half of US income earners have been denied a minimally fair deal in the US economy, and the situation has gotten worse since the 1970s.

Most ordinary Americans can also likely tell you in general terms why inequality is so pronounced: because "the system is rigged" against them and to the advantage of the rich and powerful. But do they know the details? Can they identify the specific features of US political economy that drive radical inequality? Do they know in plain terms how exploding riches at the top are the result of policies that redistribute upward? How gains at the top come at the expense of lower- and middle-class Americans?

Not so much.

This book focuses on those specific features of US political economy that create radical inequality. They are embedded in our everyday lives and normalized. Yet most Americans are unaware of them or have a distorted or incomplete understanding of them.

We are constantly asked by policy elites and ideologues to believe that the US economy is fair—that hard work and talent will pay off. Millions of ordinary Americans know firsthand that this is not true. In multiple, everyday ways deeply embedded in normalized practices, US political economy advantages a minority of people who already have wealth and power and are positioned to exploit the rules of the game, while disadvantaging everyone else.

At no time has US political economy been completely fair. But it has undeniably been fairer than it is now. Look no further than the post–World War II era of shared prosperity, when all Americans, as measured in quintiles, increased their incomes at nearly identical rates. This changed when dominant policymakers embraced the strange notion that we must indulge the rich in order for everyone to prosper. This idea found its most vivid expression in the fairy tale world of supply side economics, more colloquially known as trickle-down economics. This quasi-scientific theory found favor initially in the Ronald Reagan administration and has dominated Republican policymaking since then, despite relentlessly damning evidence against it.

The Trickle-Up Economy is in one sense a misleading title, as the preceding illustrations indicate. Looking at only the cumulative effects of the upward redistribution of income and wealth in the United States over the past forty years, "trickle" hardly captures the magnitude of the upward surge. A better image would be a river torrent flowing uphill in defiance of gravity.

That said, this book focuses on the springs and tributaries that accumulate to form that river. It addresses the steady upward flow of income and wealth from various sources, some of them familiar and obvious, others not so much. They end up in a vast reservoir of wealth on which float the yachts of rich Americans.

Yes, many programs at all levels of government distribute tax dollars, at least some of them taken from the rich, into the hands of the poor and middle class, either as cash or as services. But this represents only a small portion of the redistribution of money in the United States. Most of it moves in the other direction.

Although this book primarily addresses economic inequality and the policies that create and sustain it, separating economic inequality from its other forms is impossible. Most importantly, money buys opportunity, and it buys political power. The widening gap in income and wealth further widens gaps in opportunity and political power that have always defined American life. The result has destroyed the American Dream for over half the population. And it has been catastrophic for democracy, as the United States looks more and more like a plutocracy.

Trickle-Down Economics in Theory

The ethically defensible response to this surge of inequality and upward redistribution of income and wealth should be public policies designed to stem and even reverse it, in order to restore some semblance of basic fairness to US political economy. Perversely, however, despite occasional lurches in that direction, overall public policy has tended to go in the opposite direction, helping drive the surge in inequality. Republican lawmakers, paying homage explicitly or implicitly to supply side economics,[3] have crafted legislation that makes the problem worse. More informally, we know this approach as "trickle-down" economics. Democrats, beholden to an electorate either indifferent to or spooked by misinformation from trickle-down advocates, have at best been ineffective at countering the narrative and have at worst actively perpetuated it.

Economist Paul Krugman calls it zombie economics—a fitting title.[4] Factual evidence has effectively killed it several times, to the point that it has largely disappeared from economics textbooks, save as a historical footnote. Yet it rises again and again from the dead in the policies embraced by Congress.

At the heart of supply side economic policy is the claim that we should cut taxes, especially on the wealthy. This will supposedly spur economic activity on the supply side of the demand/supply equation. Deregulation, according to this theory, should accompany the tax cuts in order to free the economy from restraints. And best of all, the tax cuts will pay for themselves.

There are several options for cutting taxes on the wealthy, including lowering the top individual income tax rate, lowering the capital gains tax rate,[5] lowering or eliminating corporate income taxes, and lowering or abolishing estate taxes. In theory, with more money in their pockets and fewer regulations to contend with, the wealthy will invest in productive ways that create new jobs in the United States. Ordinary people can get those jobs, and this puts more money in their pockets. Thus, according to the theory, everyone benefits from the tax cuts through the trickle-down effect. Moreover, the increased economic activity will result in higher tax revenues flowing into the Treasury, paying for the initial tax cuts. This is the so-called Laffer Curve, famously drawn by economist Arthur Laffer on the back of a napkin in 1974 to illustrate his prediction of higher tax revenues generated by cutting taxes on the wealthy.[6]

At a superficial level, this all sounds plausible. A closer look, however, suggests skepticism for several reasons.

First, the claim that the wealthy will spend the extra money by investing it. Maybe, or maybe not. They may choose instead to spend it on a second or third or fourth home or another luxury car. Or they may buy gold or some other commodity that does not function as a productive investment.

Second, the claim that the investment will be productive. The wealthy can indeed invest in new equipment, new factories, new technology, worker training, and other avenues that will produce good jobs for American workers. Alternatively, they can invest in job-killing corporate takeovers, mergers, and financial speculation.

Third, the claim that the productive investment will create new jobs *in the United States*. Yes, that is a theoretical possibility. But so is investment in overseas production, where new job creation often displaces American workers who are not eligible for those new jobs. And as any modestly attentive observer knows, that has been the dominant story of the US political economy over the last several decades.

And fourth, the claim that benefits from this economic surge will trickle down to common people. Maybe, maybe not. It depends. Those added funds can be converted into new jobs with higher compensation for average workers, or they can be used to run up the compensation of CEOs and other senior management, paid out as shareholder dividends, or used by corporations to buy back their own corporate stock to drive up its value. Those profits can also be paid out as bonuses for senior management and reckless speculators.

Trickle-Down Economics in Practice

The three main supply side tax cuts for the rich occurred during the Ronald Reagan (1980–1988), George W. Bush (2000–2008), and Donald Trump (2016–2020) administrations.

Beneficiaries of the Reagan and Bush tax cuts used the extra money primarily to fund unproductive investment in corporate takeovers and financial speculation and to invest overseas and offshore. This fueled the shift in the United States from well-paying manufacturing jobs to low-paying service jobs, a precipitous decline in the share of productivity and GDP gains claimed by labor, and dramatically increasing inequality.[7]

The Trump version, enacted in December 2017, led with a sharp reduction in corporate income taxes that lowered the top rate from 35 to 21 percent. This left corporations flush with cash. Rather than investing that cash productively in new technology, equipment, factories, and worker training, and rather than increasing labor's share of profit, they used the cash mostly to buy back company stock and pay dividends to stockholders. In 2018, the total dollar amount spent by American S&P 500 companies on their own stock reached a record high of nearly $700 billion.[8] Since most stock is held by the top 20 percent of Americans, the resulting run-up in stock value mostly benefited them.

In a survey of 116 companies conducted in October 2018 by the National Association for Business Economics, 81 percent said they had not changed their investment plans or hiring decisions because of the Trump tax cut. The most noteworthy results of the Trump corporate tax cut included a surge in purchases by corporations of their own stock and more dividends to stockholders, estimated at $1.3 trillion total for 2018. Apologists for the tax cut cite a surge in economic growth from the 2017 level of 2.2 percent to between 2.9 and 3.2 percent (sources vary) during 2018, but it had already declined to approximately 2.0 percent by the first half of 2019. This is comparable to a sugar high experienced during a candy binge, followed by an abrupt crash. It is worth noting as well that the economy grew at 3.2 percent in 2015 under Barack Obama, while still struggling to emerge from the cumulative weight of the Great Recession, and that the brief growth surge under Trump was also at least partly the result of Keynesian deficit spending.

A *New York Times* analysis showed no statistically significant relationship between the Trump tax cuts and subsequent investments by major corporations. On the contrary, the analysis showed that, starting in January 2018, shortly after the tax cut went into effect, S&P 500 corporations spent three times more on buybacks and dividends that benefited their affluent stockholders than they did on investments.[9]

The creation of good jobs is central to the theory of trickle-down economics and crucial to its perceived legitimacy. So it must be emphasized that many new jobs, if and when they have been created, have not paid living wages. Over 20 million new jobs were created during the Reagan administration. Unfortunately, most of them paid low or very low wages. That trend continued during the 1990s, when the fastest-growing jobs paid too little to support a middle-class lifestyle for families. To keep up, American families have had to steadily increase the number of hours they work.

As for the Trump version, average wages increased by 3.2 percent in the United States during 2018. Adjust that number for inflation at 1.9 percent in 2018 and you're left with an overall wage gain for average workers of 1.3 percent. At that rate, it would take several generations to make up the lost wages experienced under the pretense of trickle-down since its first iteration in the Reagan administration. The Covid-19 pandemic further undermined wage growth, driving it into negative territory.[10]

The inescapable conclusion: any trickle-down effect benefiting workers has been either nil or reduced to an imperceptible drip. Overall, US workers have lost ground both absolutely and in comparison with the growing fortunes of rich Americans who have benefited directly and generously from the tax cuts.

Did the tax cuts for the wealthy at least pay for themselves? Emphatically, no. Other than needlessly and dramatically increasing the wealth of the already affluent, the most noteworthy impact of the three most prominent applications of supply side theory has been exploding deficits and a growing national debt. Both increased dramatically under Reagan and Bush II, nearly doubling under Reagan and increasing some 57 percent under Bush II.[11] All credible estimates of the impact of the Trump tax cuts have arrived at the same conclusion: rapidly rising budget deficits into the foreseeable future, even subtracting the massive fiscal impact of the coronavirus pandemic starting in 2020. Trump's Treasury secretary, Steven Mnuchin, boasted that the Trump tax cut would not only pay for itself but help pay down the national debt. Instead, in the first eleven months after its passage, the deficit surged to $912 billion, a 39 percent increase over 2017. By September 2018, the overall national debt had increased from $19.9 trillion to $21.5 trillion. By January 2020, the debt was $23.2 trillion, with trillions more predicted by the Congressional Budget Office (CBO) and other nonpartisan analysts.

And that debt carries a direct cost in interest payments, expected to reach nearly $1 trillion per year by 2028, according to an already outdated September 2018 estimate by the CBO, more than the federal government spends on defense. That estimate would now be considerably higher to account for federal borrowing to address the Covid-19 pandemic. The deficit for 2020 alone is now expected to exceed $3.3 trillion, over three times greater than prepandemic estimates.

President Trump's own Office of Management and Budget (OMB) projected a 2019 deficit of $1.1 trillion and nearly $10 trillion over the next ten years. The nonpartisan CBO projected the ten-year deficit at closer to $11.5 trillion.[12] Again, these estimates preceded the onset of the Covid-19 pandemic.

When supply side tax cuts result predictably in deficits, sponsors of those tax cuts simply blame other people and other factors. By late 2018 Republican leaders, faced with growing deficits, tried to shift the blame to spending on entitlements rather than their own reckless tax cuts for the wealthy. Arthur Laffer, one of the architects of supply side economics, claimed that it was Barack Obama's fault that the Bush II tax cuts resulted in surging deficits. The prospect of an Obama election, he explained, caused everyone to lose confidence, and this deflated the economy, undermining the growth effects of the tax cuts. Better Laffer's dissimulation, perhaps, than simply denying the fact of deficits, as Treasury Secretary Steven Mnuchin did in January 2020, when he continued to insist that the Trump tax cut would pay for itself.[13] Defenders also sometimes acknowledge that short-term deficits are possible or even likely but that longer-term economic growth will eventually make up the difference. Some also claim that the benefits from the tax cuts are actually reaped by state and local governments, whose revenues surge in response to them.[14]

The only federal budget surpluses recorded since Laffer drew his curve occurred during the Bill Clinton administration, which *raised* taxes on the wealthy. At a minimum we can conclude that increasing taxes on the wealthy does not sabotage the economy; in fact, strong economic growth can still occur.[15]

Not incidentally, deregulation espoused by supply siders and enacted into law under Republican administrations undermined the stability of the global financial system. This contributed to the Great Recession and drove the federal budget even deeper into deficit as Congress and the president, first under Bush and then under Obama, passed bailout and fiscal stimulus packages to rebuild the economy.

The 2017 Trump tax cuts represented one more step toward achieving the long-term policy objectives of the libertarian, antigovernment, free marketeer wing of the Republican Party. Republicans have long used this strategy of cutting taxes—under the guise of supply side economics and how it will supposedly increase tax revenues—to "starve the beast" by making it more and more difficult to fund badly needed programs that benefit everyone (for example, infrastructure, public education) or that specifically target lower-income Americans (for example, public assistance programs). Trump's budgets reflected this in their proposed steep cuts to Community Development Block Grants and to the US Department of Health and Human Services, affecting programs such as Meals on Wheels and senior nutrition programs. The same budgets proposed huge increases in military spending, border security, and tax cuts that disproportionately benefit the wealthy.

Policy negotiations during the summer and fall of 2020 to address the Covid-19 pandemic starkly revealed competing redistributive priorities. The Democratic-controlled House of Representatives twice passed a $2.2 trillion to $3 trillion Health and Economic Recovery Omnibus Emergency Solutions Act that offered support for lower- and middle-income individuals and families comparable to the earlier Coronavirus Aid, Relief, and Economic Security Act of March 27, 2020. At a minimum, it would not have made inequality worse. The Republican-controlled Senate balked, offering instead a much leaner package, topping out at around $1 trillion, that did comparatively little to support lower- and middle-income individuals and families. They continued to favor tax cuts that would worsen inequality. The final legislation, enacted in the closing days of 2020, committed less than $1 trillion total.

Politicians need not actually believe in trickle-down economics to support it. Voters love a tax cut, especially when misled into thinking it will benefit everyone and reassured that it will pay for itself. In one of his last speeches before leaving office in January 2019, former Speaker of the House Republican Paul Ryan expressed sympathy for the plight of average Americans and promised that cutting taxes for the wealthy would benefit those average Americans. "Most people, half the people in this country, live paycheck to paycheck, so there's a lot of economic anxiety," he noted, failing to acknowledge his own party's contribution to that anxiety by dismantling the safety net and deregulating the financial industry. As a "key solution" to this economic anxiety, Ryan advocated "faster economic growth, more jobs," delivered through tax cuts for the wealthy.[16] And, of course, the tax cuts would pay for themselves.

In addition to the empirical evidence against supply side economics, a strong ethical argument can be made against it. Why must ordinary Americans' gains in financial status and stability be bought indirectly by first enriching the already wealthy and hoping for residual benefits? We can support Americans on the bottom directly, without further enriching the already rich, through increases in the minimum wage, pro-union policies, a steeply progressive tax system, and increased social welfare spending, for example.

The con job of trickle-down economics is only part of this story of the massive upward redistribution of income and wealth in the United States since the 1980s. The following chapters address the many ways we redistribute upward. Some of them are hidden in plain sight, normalized, and taken for granted, while others are hidden in dark corners of US culture and society.

The following chapters address, in turn, wages and income, the tax system, social welfare spending, corporate welfare, the US banking and financial system, the racialized character of trickle-up economics, and so-called free markets.

Notes

1. For a sampling, see Stephen Caliendo, *Inequality in America: Race, Poverty, and Fulfilling Democracy's Promise* (New York: Routledge, 2018); David Grusky and Jasmine Hill, eds., *Inequality in the 21st Century* (New York: Routledge, 2018); Thomas Piketty, *Capital in the 21st Century* (Cambridge, MA: Harvard University Press, 2014 [2013]); Thomas Piketty, *The Economics of Inequality* (Cambridge, MA: Harvard University Press, 2015 [1997]); Thomas Shapiro, *Toxic Inequality: How America's Wealth Gap Destroys Mobility, Deepens the Racial Divide, and Threatens Our Future* (New York: Basic Books, 2017); and Joseph Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers Our Future* (New York: W. W. Norton, 2013). Several research and advocacy organizations have carefully charted the rise in inequality; see, especially, Economic Policy Institute, United for a Fair Economy, Dollars & Sense, and Institute for Policy Studies.

2. Sources include Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, "Economic Growth in the US: A Tale of Two Countries," *VOX*, March 29, 2017, https://voxeu.org/article/economic-growth-us-tale-two-countries; Greg Leiserson, Will McGrew, and Raksha Kopparam, "The Distribution of Wealth in the United States and Implications for a Net Worth Tax," Washington Center for Equitable Growth, March 21, 2019, https://equitablegrowth.org/the-distribution-of-wealth-in-the-united-states-and-implications-for-a-net-worth-tax; "Income Inequality in the United States," Institute for Policy Studies, https://inequality.org; and Elise Gould, "State of Working America, Wages 2018," Economic Policy Institute, February 20, 2019, www.epi.org/research/state-of-working-america.

3. See, for example, Brian Domitrovic, *Econoclasts: The Rebels Who Sparked the Supply-Side Revolution and Restored American Prosperity* (Wilmington, DE: ISI Books, 2014); Arjo Klamer and Alan Reynolds, *Monetarism and Supply Side Economics: Free Market Thought in the Late 20th Century* (Edinburg, PA: Carmichael & Carmichael, Inc., 1988); Thomas Sowell, *"Trickle Down" Theory and "Tax Cuts for the Rich"* (Stanford, CA: Hoover Institute Press, 2012); and Lin Xiao, *New Supply Side Economics: The Structural Reform on Supply Side and Sustainable Growth* (Singapore: Springer Nature Press, 2017). Supply-side economics is in turn one part of a larger neoliberal shift in political economy occurring in the United States and worldwide since approximately the mid-twentieth century. On neoliberalism and its policy applications, see, especially, Jack Rasmus, *The Scourge of Neoliberalism: US Economic Policy from Reagan to Trump* (Atlanta: Clarity Press, 2020).

4. Paul Krugman, "From Voodoo to Evil-Eye Economics," *New York Times*, August 23, 2019. In an honest moment, former president George H. W. Bush dubbed it "voodoo economics."

5. As economist John Miller sarcastically points out, this option of cutting capital gains taxes is neoliberal economists' and *Wall Street Journal* editors' "surefire cure for every economic problem." John Miller, "Out of Policy Ideas? Cut Capital Gains Taxes!," *Dollars & Sense* (July/August 2020): 9–10.

6. Total taxes in the United States average approximately 24 to 25 percent of GDP, compared to nearly 50 percent in the northern European countries, over 40 percent for all EU countries, and an OECD average of approximately 34 percent, making the United States one of the least-taxed OECD countries. See "Briefing Book," Tax Policy Center, www.taxpolicycenter.org/briefing-book.

7. Walter Picca, *Why the Reagan and Bush Tax Cuts Are Unfair*, 2nd ed. (New York: iUniverse, Inc., 2007 [2005]); Andrew Fieldhouse, "The Bush Tax Cuts Disproportionately Benefitted the Wealthy," Economic Policy Institute, June 4, 2011, www.epi.org/publication/the_bush_tax_cuts_disproportionately_benefitted_the_wealthy; Andrew Fieldhouse, "Ten Years Later, the Bush Tax Cuts Remain Unfair, Ineffective, and Expensive," Economic Policy Institute, June 6, 2011, www.epi.org/publication/ten_years_later_the_bush_tax_cuts_remain_unfair_ineffective_and_expensive; Lee Price, "The Lesson of the 1981 'Supply-Side' Tax Cuts," Economic Policy Institute, June 16, 2004, www.epi.org/publication/webfeatures_snapshots_06162004.

8. "Record Level of Share Buybacks," Union Investment, http://union-investment.ch/home/Capital-Market/Themen_Record_level_of_share_buybacks.html. See also Arthur MacEwan, "Stock Buybacks: Any Positive Outcome?" in *Current Economic Issues*, ed. James Cypher et al., 23rd ed. (Boston: Economic Affairs Bureau, 2019), 43–45.

9. Jim Tankersley and Matt Phillips, "Trump's Tax Cut Was Supposed to Change Corporate Behavior. Here's What Happened," *New York Times*, November 12, 2018; Jim Tankersley, Peter Eavis, and Ben Casselman, "Intense Lobbying by FedEx Slashed Its Tax Bill to $0," *New York Times*, November 17, 2019. The economic gyrations caused by the Covid-19 pandemic rendered growth comparisons for 2020 irrelevant.

10. "United States Wages and Salaries Growth, 1960–2020," Trading Economics, https://tradingeconomics.com/united-states/wage-growth.

11. Kimberly Amadeo, "US Budget Deficit by President," *The Balance*, May 23, 2020, www.thebalance.com/deficit-by-president-what-budget-deficits-hide-3306151.

12. "Budget and Economic Data," Congressional Budget Office, www.cbo.gov/about/products/budget-economic-data#3.

13. Editors, "There's No Such Thing as a Free Tax Cut," *New York Times*, January 23, 2020.

14. See, for example, Brian Domitrovic, "The Pillars of Reaganomics," *The Imaginative Conservative*, November 12, 2014, https://theimaginativeconservative.org/2014/11/pillars-reaganomics .html.

15. Nancy Stokey and Sergio Rebelo, "Growth Effects of Flat-Rate Taxes," in *Journal of Political Economy* 103, no. 3 (June 1993): 519–550, found that the steep increases in tax rates after the implementation of an income tax in 1913 produced no apparent effect on the average growth rate of the economy.

16. Carl Hulse, "Paul Ryan Puts It All on the Line in Tax Fight," *New York Times*, November 4, 2017.