The Austerity War in the United States

Historical Roots, Current Causes and Progressive Solutions of the Deficit Crisis

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We have reached what may be a crucial point in the evolution of the political economy of the United States. Rapidly rising deficits at federal, state and local government levels, along with prospective long-term financing problems in the Social Security and Medicare programs, have triggered a one-sided class war. A right-wing coalition composed of rich households, large corporations, smaller businesses, ideological conservatives (such as the Religious Right and, more recently, the Tea Party), and conservative politicians, has demanded that the deficits be eliminated by severe cuts at all levels of government in spending that either supports the poor and the middle class, or funds crucial public investment in education, health care, infrastructure and technology. Simultaneously, the coalition has demanded huge tax cuts for wealthy households and businesses that would ratchet up political pressure to further decimate government social and investment spending by creating even larger deficits. Even more extreme austerity pressures have developed in Europe in the context of the »Euro crisis«. The adoption of austerity programs across the globe threatens to sink economies deeper into recession or even depression, perhaps triggering another global financial and economic crisis.

This paper makes three main points. First, this austerity war has deep historical roots. Second, current government debt problems are the result of right-wing economic policies implemented since President Reagan took office in 1980. Third, rather than attack the root causes of the current deficit crisis – slow growth under the post-Reagan right-wing economic model, the radical deregulation of financial markets that culminated in a global financial crisis, endless regressive tax cuts and excessive defense spending on wars of choice – both Democrats and Republicans have insisted that substantial nondefense spending cuts must bear the brunt of deficit reduction. The Democrats offer large cuts in social spending, while the Republicans want to destroy the entire New Deal project.

Understanding Today's Austerity War Requires an Economic and Political History Lesson

In the boom of the second half of the 1920s there was little regulation of business, very low taxes on business and rich households, a crippled union movement, a powerful financial sector that rained money on the wealthy, immense inequality and a political system controlled by economic elites. This was a right-wing dream world.

The out-of-control capitalism of the period led to a financial crisis in late 1929 that eventually became a financial collapse accompanied by a severe depression. This economic disaster generated such serious social and political unrest that the very existence of capitalism in America was called into question. Franklin Delano Roosevelt and the Democratic Party took control of the government in 1933 and began to implement a series of programs that became known as the New Deal. They included strict regulation of financial markets, creation of the Social Security program, support for the rising industrial union movement, large public employment programs, deficit-financed stimulus spending, and the beginning of a system of unemployment insurance. The New Deal helped stop the collapse of the economy and restored economic growth, but when the Democrats tightened the budget in 1936 under pressure from anti-deficit forces, unemployment began to rise again. It took the central planning and huge government spending of World War II to restore full employment. The economic role of government grew substantially after World War II. Social Security was expanded, Medicare and Medicaid were created, and various income security programs were instituted that expanded the social safety net. Union membership peaked at 34% of all workers in 1954. Unions were the most important constraint on the power of corporations and the rich both in the political arena and in the economy in this era, and the most important force pushing for government economic policies in the interest of the emerging middle class and the poor.

An anti-New-Deal right-wing coalition emerged in the 1930s that has struggled to this day to undermine America's new social democracy. Right-wing forces (Phillips-Fein 2009, 269):

> *(…) dreamed of a return to the low-regulation, low-tax economy of the 1920s or even the late 19th century. (…) They feared the power of the state and the threat of economic redistribution. They believed that at the heart of the New Deal and the labor movement was an excess of democracy – that the organization of working-class people into labor unions led to the rise of the welfare state and the perversion of the market economy. … They believed that the free-market was equivalent to freedom itself, that regulating the market meant surrendering political liberty as well as economic strength. For them, the turning back of the New Deal was a question not only of the bottom line but of the deepest social principles. They had [a deep-seated] antipathy toward social democracy.*

The coalition's problem was that the expanding economic role of the government was very popular because it created a prosperous economy from World War II through the mid 1970s – the so-called »Golden Age« of modern capitalism. The rate of economic growth was high, unemployment was low, real wages and family incomes rose rapidly, and inequality plummeted.

The mid-to-late 1970s marked a turning point. Oil price »shocks« hit the economy both early and late in the decade causing spikes in the rate of inflation. In response, macro policy was tightened, which caused the unemployment rate to rise from 4.9% in 1973 to 8.5% in 1975. Inflation declined from 1975 through 1977, but then rose again near the decade's end with the second oil-price increase. Slower growth, higher inflation and unemployment, and falling profits and stock prices created growing discontent with the economic status quo. Meanwhile, social unrest was stirred by racial conflict over integration, the anti-Vietnam-war movement, the women's movement, and student radicalism.

These developments led to a political alliance between resurgent right-wing economic forces and the rapidly increasing ranks of »cultural« conservatives. As a result, business and other conservative forces saw a dramatic increase in their ability to raise money to elect friendly politicians, organize grass-roots pressure on all politicians, and expand an emerging right-wing ideological infrastructure of think tanks and university influence. They also used their control of the media to interpret economic and political events for the public through a conservative prism. As top executives from giant corporations began to shift toward more aggressive conservative economic positions, they helped create a formidable fund raising and lobbying operation. Wealthy right-wing families also poured money into the political process. The increasing cost of political campaigns created a pressing demand for funds and Republicans were overpowering Democrats in the electoral money wars. Meanwhile, the percentage of American workers in unions had fallen to 23%. Democrats responded to this new environment by becoming more business-friendly and more conservative on economic issues. At the end of the Carter administration in the late 1970s, the right-wing coalition was in position to begin to challenge the foundations of the post-war political economy.

By 1980, the country had come to a cross roads. Under changed economic conditions, the existing set of government institutions and policies was no longer generating the widespread prosperity the public had come to expect. Either we had to revise and reinvigorate our social democratic model or replace it with an alternative model. Right-wing forces had a clear vision of the alternative model they wanted – a modern version of the 1920s economy situated in a globalized economic system – and had vastly increased their political clout. Supporters of the basic New Deal philosophy were confused about how to restructure the government-economy nexus in the face of economic adversity, and a large and growing percentage of Democrats had lost their commitment to the New Deal project. Progressive academics and politicians offered proposals to deal with the main economic problems of the era that were consistent with the New Deal philosophy. But in the economic, political and cultural milieu of the late 1970s, it was the model favored by the right-wing coalition that was gaining political and ideological power.

The election of Ronald Reagan in 1980 represented a major victory for right-wing forces. In concert with a complaint Congress controlled by Democrats, the Reagan administration restricted the growth of government spending on the poor and middle class and simultaneously instituted large tax cuts focused on corporations and the very wealthy. It attacked the union movement and accelerated the deregulation of business. Financial market deregulation was especially dramatic. The combination of financial market deregulation, high unemployment, regressive tax cuts, and attacks on unions inevitably triggered a rapid rise in inequality, while globalization gave mobile industrial capital a huge advantage over immobile domestic labor, holding down the growth of real wages. Since the Reagan-led government not only cut taxes but also increased defense spending by about 1.5% of GDP, it created by far the largest federal budget deficits since the end of World War II. From 1982 through 1987, annual deficits averaged 5.9% of GDP.

The general direction of policy under Reagan continued during the presidency of George Bush senior. Bill Clinton campaigned as a progressive but governed as a pro-business centrist. The Democrats lost the House and Senate in 1994. The House leadership – men such as Newt Gingrich, Dick Army, and Tom Delay – were by far the most radical right-wing group to control the House in the post World War II era.

Moderate Republicans had become an endangered species, while the Democratic Party was now well to the right of Eisenhower and Nixon on economic issues.

The Clinton government's record on the economy was mixed. It did preside over a rapid economic expansion in the second half of the1990s and orchestrated a modest increase in upper income tax rates that, together with rapid economic growth, led to the first budget surpluses since 1969 in the last three years of his presidency. However, the expansion was driven by several unsustainable forces whose collapse triggered a recession as soon as he left office. The Clinton administration also supported and achieved substantial additional financial market deregulation that directly contributed to the financial market collapse in 2008 and the deficit explosion that followed. It seriously weakened the social welfare system. Under Clinton's presidency, the income share of the top 1% of the income distribution rose from 15% to 22%, and by the end of his term, union membership had shrunk to 13.5% of the workforce.

George W. Bush, who took office in 2001, oversaw the passage of large regressive tax cuts that hemorrhaged trillions of dollars of government revenue. Revenue was also constrained by the extremely weak growth of the economy; from 2000 to 2008 real GDP growth averaged only 2.1% a year. Under Bush, the United States started wars of choice in Iraq and Afghanistan that have cost at least $1.4 trillion to date. The implosion of financial markets in 2008 kicked the already weak economic recovery into a tailspin that slashed government revenue and automatically triggered greater spending on programs such as unemployment compensation and Medicaid.

The Obama government responded to the economic collapse with a substantial deficit-financed stimulus program and a financial market rescue operation. The stimulus program helped prevent a depression, but it was both too small and too poorly designed to trigger a strong economic upturn in an economy so weakened by right-wing policies.

The new economic regime that began in the US in the late 1970s generated a substantial decline in the rate of economic growth and a dramatic rise in the degree of inequality of income and wealth as well as exploding deficits. The growth rate of real GDP was 3.75% a year from 1950 through 1979, but only 2.75% a year from 1979 through 2010. It is hard to disentangle the various chains of causality collectively responsible for this slowdown, but the shift to a right-wing economic model clearly played an important role. Meanwhile, right-wing policy caused income to be redistributed to the highest income segments with the lowest propensity to consume, seriously restraining aggregate demand growth. Median real family incomes rose by 2.4% a year in the period from 1950 to 1979, but increased by a meager 0.4% annually in the 1979 to 2009 period. While middle-class income stagnated, income growth at the top of the distribution accelerated. From 1979 to 2007 the top 1% received a higher share of income growth than did the bottom 90%, an outcome that would have been unthinkable prior to the Reagan revolution. The share of market income (including capital gains) received by the top 1% hit a peak of 23.9% at the height of the late 1920s financial boom. It fell dramatically after 1929 and stayed at about 10% throughout the Golden Age. However, precisely when right-wing political forces began to strengthen in the 1980s this index of inequality began a prolonged rise that took it to 23.5% in 2007, just before the financial bubble burst.

The failed right-wing economic model combined with the reckless policies of George W. Bush, and the Obama administration's efforts to prevent a depression created by far the largest federal budget deficits in peacetime history just after Obama took office. Instead of eliminating the causes of the deficit, right-wing Republicans and conservative Democrats, strongly influenced by the oligarchs who fund them, used the deficit crisis to unleash an austerity war against the American people. Phillips-Fein concluded her study of the long-struggle by the right to undo the New Deal as follows: »The political cause for which [the anti-New-Deal forces have] labored has in large part been triumphant: the New Deal has been turned back« (p. 322). While much of the New Deal edifice remains in place, its enemies are clearly in ascendance.

The Right-Wing Economic Model and Wars Caused the Deficit Crisis

Since the right-wing economic model relentlessly pursues regressive tax cuts and slows the economic growth rate, it has a strong tendency to restrain the growth of government tax revenue. While committed to reducing government spending on the social safety net and public investment, it supports increased defense expenditures and giveaways to corporate America. However, proposals by conservative politicians to substantially defund or privatize popular spending programs such as Social Security and Medicare have, until recently, triggered a powerful political backlash that has made them impossible to implement. In practice, *at least until now*, the model restrains revenue growth more effectively than it lowers spending. *This combination has made rising deficits a structural attribute of the right-wing model.*

Federal government debt in the hands of the public as a percentage of GDP peaked at 112% in 1946 just after World War II ended. During the early post-war decades, the rate of economic growth was much faster than the rate of growth of government debt, so the debt-to-GDP ratio became smaller over time. In the year before Ronald Reagan became President, the ratio was at a post-war low of 26%. *There was no deficit or debt problem before the Reagan presidency.* When Reagan left office in 1988, the debt-to-GDP ratio had risen to 41%. During the presidency of George Bush senior it rose to 48.1%, *almost double what it had been in 1981*. The oft-heard claim that Republicans are fiscal conservatives is utterly inconsistent with the historical record.

The debt ratio fell from 49.3% to 34.7% in the Clinton years. When George W. Bush took office in January 2001, the Congressional Budget Office (CBO), the bipartisan group charged with assessing the prospective budget implications of all tax and spending legislation, estimated that under then-current policies (including the tax rates carried over from the Clinton administration) the federal government would achieve a cumulative surplus of $5.6 trillion over the coming decade. These prospective surpluses were converted into huge deficits by the Bush tax cuts and war spending in the context of a self-destructing financial system and a structurally weak economy. In fact, the decade from 2001 to 2011 saw a cumulative $4.7 trillion deficit – a $10.3 trillion deterioration from the CBO's 2001 projection. The Bush tax cuts alone resulted in $3 trillion in lost revenue from 2001–2010.

In the year George W. Bush took office, the debt-to-GDP ratio was 32.5%. When he left office in 2008, it was 40.3% and about to explode. In the crisis that erupted in the first year of President Obama's term the ratio hit 53.5%. In 2010 it was 62.5%. The ratio was projected to hit 75.1% in 2012, in part due to the two-year extension of the Bush tax cuts agreed to by President Obama and Congressional Republicans in 2010. But if all the Bush tax cuts are again extended after 2012 at an estimated ten-year cost of $5.4 trillion, as is quite possible, the figure would rise to about 95% in a decade. This would constitute a fairly serious debt problem.

A Center on Budget and Policy Priorities analysis of CBO data, shows that the prospective deficits of the next decade can be attributed to four key factors: the wars in Iraq and Afghanistan; the Bush tax cuts; the revenue and spending effects of the economic downturn and projected sluggish recovery, and, to a lesser degree, measures taken to prevent a depression and financial market collapse. »If not for the Bush tax cuts, the deficit-financed wars in Iraq and Afghanistan, and the effects of the worst recession since the Great Depression (including the cost of policymakers' actions to combat it), we would not be facing these huge deficits in the near term.« (Center on Budget and Policy Priorities 2011a) Yet instead of trying to fix these underlying problems, Republicans launched an aggressive attack against important New Deal programs and policies, while Democrats offered to support a more moderate erosion of these programs.

The Current Austerity War

The State and Local Government Battle

The main causes of the large current and prospective deficits at the state and local levels are the deep recession that hit the country after mid 2008, slow economic growth since 2001, a collapse in the value of pension fund assets in the financial meltdown, and a long-term erosion of the tax base. State revenues fell by 13% between 2007 and 2009, an unprecedented revenue loss in the post World War II era. Moreover, many states have cut corporate taxes since the crisis began.

Revenue losses and the rise in social spending caused by the recession generated a total estimated annual gap of $140 billion, or 21% of state spending commitments in 2010. Federal grants covered about one-third of the gap that year, but those funds are drying up. Since almost all states are legally required to avoid deficits, and since most states refuse to raise taxes substantially, if at all, the gap has to be eliminated primarily through spending cuts. States are cutting funds for programs such as health care for the poor, home care for the infirm, and support for education at the elementary, high school and college levels. More than 467,000 state and local government jobs were lost from the official end of the recession in June 2009 to June 2011, including 188,000 jobs in schools. At a similar point after the 2001 recession ended, 249,000 jobs had been added. The poor and the middle class depend on the services under attack. It is therefore imperative that faster revenue growth be created through more rapid national economic growth and progressive state and local tax increases.

The most important austerity-war targets are public employees and their unions, and conservative governors in several states have tried to destroy their public-sector unions. Since public-sector union members are a majority of the country's dwindling union ranks, victory in the state and local government war against unions would help complete the right-wing's long war against the union movement in America. Conservatives argue that the biggest long-term fiscal problem is excessive compensation of public employees in the form of salaries, and, especially, health care and pension costs. However, careful studies that compare public-sector versus private-sector compensation of employees with similar education and experience show that public-sector workers are relatively under-compensated via salary and over-compensated via benefits. The net result is that, on balance, they earn slightly less than their private-sector counterparts.

There is a problem with underfunding of pensions, but it is of recent vintage in most states. In 2000, state pension funds as a whole had no unfunded liabilities. However, pension funds lost $900 billion in value between mid 2007 and mid 2009, and some states fell behind in providing appropriate resources to their pension funds over the low-growth past decade. To restore adequate provisioning, states should provide higher government contributions to pension funds financed by progressive tax increases, and employee contributions to pension funds should be moderately increased through collective bargaining.

Longer-Run Problems in Social Security and Health Care Funding

Social Security is probably the most successful US government social program ever. It is financed through social insurance fund payments, not borrowing. The poverty rate among the elderly fell from 35% in 1959 to 9% in 2009 largely because of Social Security. If Social Security payments stopped, the poverty rate for those 65 and over would rise to 45%. Yet it is not excessively generous. The average annual payment to retirees is around $14,000, and more than 80% of benefits go to families whose other annual income is less than $20,000. Protecting Social Security is more important than ever because private sector sources of old-age security are in rapid decline.

The Social Security System is not in crisis. In 2010, the 75 year projected shortfall was estimated to be 0.6% of the cumulative GDP for that period. Social Security taxes are not imposed on income from financial or other investments, only on wages and salaries, and the income on which the tax is based is capped. If the cap on earnings, now at $107,000, was removed, 95% of the projected shortfall would be eliminated.

There *is* a long-term crisis brewing in the provision of health care in the US. The only feasible long-run solution to our health care problems is to adopt a system more like those in other relatively rich countries in Europe or Canada, one that does not allow private insurance companies and pharmaceutical companies to take such a big bite of the health-care dollar. A Canadian-style health care system in the US would save more than $10 trillion over a decade, ending the Medicare-Medicaid crisis. If we adopted a single-payer system based on Medicare, with no other changes, we could save as much as $4 trillion over a decade.

House Republicans Declare All-Out War on the New Deal

The radical budget bill passed by the House in April 2011 calls for nondefense spending cuts of $4.5 trillion dollars over ten years. Cuts in low-income programs, at $2.9 trillion, would be almost two-thirds of the total. An additional $400 billion would come from unspecified cuts in discretionary programs serving lower income Americans. The CBO's analysis of the House bill states that all federal spending other than on Social Security (which the bill does not address), Medicare, Medicaid, and interest payments will drop »from 12 percent [of GDP] in 2010 to 6 percent in 2022 and 3.5 percent by 2050.« It notes that »spending in this category has exceeded 8 percent of GDP in every year since World War II.« (Greenstein 2011).

The House bill calls for the privatization of Medicare. The government would give seniors a grant to help pay for private insurance. The CBO estimates that *by 2030 the voucher would pay for just one-third of the cost of a Medicare-equivalent private insurance policy*. The CBO also estimates that by 2022, federal funding on Medicaid would fall by 35% percent from its 2010 level; by 2030 it will be 49% lower. As the Financial Times' respected senior columnist Martin Wolf put it: »In the US, utopians of the right are seeking to smash the state that emerged from the 1930s and the second world war.« (Financial Times 2011)

For the right-wing coalition, spending cuts are an opportunity to enact even greater regressive tax cuts, not eliminate deficits. The House bill makes all of the Bush tax cuts permanent at an estimated cost of $5.4 trillion over a decade and proposes an additional series of tax cuts that the Center on Budget and Policy Priorities claims »would primarily benefit high-income households at a cost of nearly $3 trillion over that period.« (Center on Budget and Policy Priorities 2011b) The bill cuts the top tax rate for both individuals and corporations from its current 35% to 25%. Ninety five percent of Americans would receive no benefit from this cut because they are already in tax brackets of 25% or less. This bill puts the top individual tax rate at its lowest level since before the New Deal. It also drops the tax on capital gains to zero – a huge gift to millionaires and billionaires with a large cost in terms of lost tax revenue.

The bill also calls for $2.5 trillion in increased revenues from the elimination of unspecified tax loopholes or »tax expenditures,« but these are phantom tax revenue increases that the Republican Party would never vote for. Therefore, the actual revenue loss from these tax cuts could be over $7 trillion, in which case the sum of spending and tax cuts would add an additional $2.5 trillion to the cumulative deficit over the next decade. The House bill would thus slash taxes on corporations and the rich, push the degree of inequality well beyond its late 1920s level, destroy key economic functions of the federal government, *and raise the deficit*. The Center on Budget and Policy Priorities calls this bill »a massive redistribution of income from the poorest Americans to the wealthy.« (Center on Budget and Policy Priorities 2011b).

President Obama Offers Substantial Austerity, with Two Dollars of Spending Cuts for Each Dollar of Increased Revenue

In April of 2011, the president proposed a budget that would cut about $4 trillion over 12 years relative to a scenario in which the Bush tax cuts remained in place. Rather than let all the Bush-Obama tax cuts of 2010 expire after 2012, he wants to continue the tax cuts for the first $250,000 of household income. The $250,000 cap will save a trillion dollars, but keeping the rest of the tax cuts will cost about four trillion dollars in lost tax revenue, making the pressure to cut spending even stronger. Astoundingly, Obama's proposed tax rate on capital gains and dividends is, at 20%, well below the 28% capital gains tax rate for high income earners enacted under the Reagan Administration. The President also proposes unspecified spending cuts of $2 trillion that would inevitably lead to large cuts in the funding for important programs that had no role in creating the current deficit crisis.

Thus, the President is focused on regressive austerity policy even as the rates of unemployment and under-employment remain at semi-depression levels and real wages and median family incomes decline. The US has a deficit problem that could be easily resolved and a severe crisis in employment and wages that will become disastrous unless the war on social democracy ends.

The Debt-Ceiling Fiasco

When President Obama signed a bill extending all the Bush tax cuts in December of 2010, he was asked by reporters why he did not demand in return an agreement by Republicans to raise the federal debt ceiling so the government could continue to finance its operations without interruption. He replied that this was unnecessary because he was sure the Republicans would not act irresponsibly in this regard, an answer that leads one to wonder what planet the President lives on. The hyper-aggressive right-wing Republican Party used a threat to shut down the government by refusing to allow the debt ceiling to rise to extract an astounding series of budget concessions by our pliant President. In the end, the Democrats agreed to a bill that will cut at least $2.2 trillion in federal government spending over the next ten years *but does not generate a single dollar in new tax revenue*, something the President had pledged he would not permit. If enacted, these spending cuts will worsen America's already bleak economic prospects.

The budget cuts come in two stages. The immediate stage enacts $1.1 trillion in cuts through automatic caps on spending over a decade, mostly to nondefense discretionary programs. Funding for crucial public investment projects and for many vital social programs will be deeply cut. Nondefense discretionary spending as a percent of GDP is expected to fall from its current 3.5% level to 2.0% in 2021 – which would be the lowest level in over a half century. In the second stage, a congressional 'super-committee' composed of six Republicans and six Democrats was supposed to propose at least $1.2 trillion in additional deficit reduction by November 23, 2011. The super-committee had the power to raise tax revenue, but all six Republican members had signed a pledge not to vote for tax increases. Since political pressure made it hard for the Democrats to accept a bill with no increased tax revenue, the super-committee failed to come to an agreement. Under the terms of the new law, this failure will trigger an additional series of automatic across-the-board spending cuts of $1.2 trillion over the next decade with no revenue increases. The second round of spending cuts is expected to reduce nondefense discretionary spending to 1.7% of GDP by 2021. Paul Krugman called this law »an abject surrender on the part of the President.« (New York Times 2011).

What the American people need at this dangerous conjuncture is a progressive Democratic Party led by a fighter who will help organize and lead a vigorous counter-attack against this deadly assault on the American people. Unfortunately, what we have is a business friendly, centrist-to-right Democratic Party that is unwilling or unable to resist the demands made on it by its funders, and a President who seems quite comfortable in his current position as the Great Compromiser in spite of his current pre-election mildly populist rhetoric.

What Should Be Done to Resolve the Deficit Crisis?

The deficit gains from spending cuts other than in defense or from serious health care reform are limited. Social Security must be defended, and Medicare and Medicaid must be protected until the national health care system is radically reformed.

Nondefense discretionary spending has not been a contributor to the recent deficit explosion. Indeed, it was a smaller percentage of GDP in 2008 than it had been when Ronald Reagan took office. To lower deficits and inequality as well as fund necessary government programs, we need to generate much higher government revenue. Total federal tax revenue in 2010 as a percentage of GDP was at a 60 year low. The fact that the US is, by international standards, a very lightly taxed nation suggests that it would be possible to raise substantial additional tax revenue.

Our low tax revenues are caused by a combination of low official tax rates on individual and corporate income, and a vast swamp of loopholes written into the tax code over decades. By raising rates and cutting loopholes, we could generate much greater tax revenue from both the individual and corporate income tax. In 2010, total revenue lost to individual federal tax loopholes was in excess of $900 billion. As a result, there is no progressivity in total effective federal individual tax rates for incomes above $100,000. Effective tax rates on the rich have declined dramatically since the early 1990s and effective tax rates on the super rich have fallen even more. In 2007, the effective tax rate was flat from $100,000 through $352,900, then declined substantially for the super rich. *In 2007, the top 400 filers, whose average income was $345 million, paid about the same tax rate as those in the $50,000 to $74,700 range.* High tax rates on the super-rich are compatible with, and perhaps a precondition for, a healthy economy.

US-based corporations claim that they cannot compete in the global market place because the top nominal US corporate tax rate of 35% puts them at a competitive disadvantage. But the corporate tax code is riddled with loopholes. The US Treasury Department estimated that in 2007 the average effective US corporate tax rate was 13.4%. By comparison, the rate in the UK was 27.7% and the rate in France was 20%. Post-war corporate tax revenues as a percentage of GDP remained above 4% through the 1960s; they then fell to a low point of 1% in the deep recession of 1983 and stayed between 1% and 2% since then. Many of the most profitable large corporations pay no taxes and even receive substantial subsidies from the government from time to time. In 2010, twenty-five of the hundred highest paid US CEOs earned more than their companies paid in federal taxes.

According to CBO budget projections made in January 2011, if the 2010 tax cuts are extended beyond 2012, and the exemption for the Alternative Minimum Tax (ATM) continues to be indexed for inflation, the cumulative 2011–21 deficit (including the extra interest payments generated by these cuts) is projected to be $11.6 trillion and the debt-to-GDP ratio will rise to over 95% by 2021. However, if all the tax cuts are allowed to expire in 2012 as current law requires, the cumulative deficit falls to $7 trillion and the debt-to-GDP ratio peaks at 77% and holds steady thereafter. If we also reduce troop numbers in Iraq and Afghanistan to 45,000 by 2015, the CBO projects that the cumulative deficit will fall to $5.7 trillion or 63% of GDP and the debt-to-GDP ratio will begin to decline**.** *These two changes alone would cut the prospective decade-long deficit in half, reducing it to manageable proportions without gutting important government programs.*

But there are ways to raise revenue from taxes on individuals other than or in addition to letting all the Bush-Obama tax cuts expire. Individual tax rates for the well-to-do could be raised well above those used in the Clinton years, and the 20-plus tax-rate trigger levels used before 1992 to increase progressivity at upper income levels could be restored. Consider several examples of more progressive individual tax policies. If the effective rate from *all* federal taxes on the top 1% was doubled – from the current rate of 22.5% to 45%, revenues would increase by well in excess of $4 trillion over a decade. Eliminating just 20% of the more than $900 billion annual loss of revenue through individual tax loopholes would generate nearly $1.8 trillion in revenues over a decade. The gain from taxing dividends and capital gains at the same rate as wages and salaries and not excluding capital gains on inherited assets from taxable income alone would increase tax revenue by an estimated $1.1 trillion over a decade – and substantially lower inequality. Raising the effective corporate income tax rate by eliminating 75% of business tax expenditures would generate $1.2 trillion over a decade. The institution of a very small financial transactions tax on stock and derivative sales could generate $1.5 trillion over ten years while cutting financial market gambling substantially.

The main point is that the widely circulated claim that to resolve our deficit crisis we have no choice but to slash federal spending on programs that fund productive government investment and assist the poor, the middle class, the sick and the elderly is simply not true.

Concluding Comments

The long-run battle to restore the 'natural' order of America's economy and society as it existed in the 1920s may be entering a decisive phase. Government regulation of industry and finance is again pathetically weak, the union movement is a shell of its former self and under savage attack, inequality is back where it was in late 1920s, government spending on the poor and middle class is under unprecedented assault, and corporations and the very rich again control politics. Moreover, the media that creates and propagates the semi-official narrative that explains to the American people what caused the deficit crisis and what policies should be taken to resolve it does not tell the truth about this crucial issue. The three major television networks (NBC, ABC and CBS) and most major 'liberal' newspapers generally follow the need-for-austerity story adopted by President Obama and the Democrats. A very large percentage of Americans get their information on politics and the economy from popular right-wing cable television outlets like Fox News, along with right-wing talk radio, and conservative newspapers. This segment of the media relentlessly transmits an extreme right-wing version of reality. There may not be a single important media source trusted by large segments of the American public that tells them the truth about the deficit crisis. This makes the public susceptible to seduction by people and parties operating against their interests.

The political situation is not totally bleak however. The fact that many Americans face stagnant or declining real incomes, a disastrous labor market, precarious retirement prospects and the threat of a severe retrenchment in government programs crucial to their health and welfare, has led to an increase in political resistance to current policy trends. Polls consistently show that a majority of Americans supports higher taxes on corporations and the rich, and opposes spending cuts in Social Security, Medicare, Medicaid and other important government programs that assist the poor and the middle class. Equally important, large numbers of Americans have engaged in organized political resistance to vicious attacks on public workers and large cuts to social programs in states governed by right-wing politicians.

The US economy no longer serves the needs of the majority of Americans and the global neoliberal capitalist system within which it is embedded is in crisis. A second global financial disaster is not unlikely in the near to intermediate future. We need radical change in both our economic and political systems. We have to change to an economic model that can produce reasonable prosperity and security for American families with much less inequality than we have at present. To achieve such an economic transformation, we have to create a functioning democracy in which the informed priorities of the majority are reasonably reflected in the outcomes of the political process, one that will replace the oligarchic control over politics of the present moment. To achieve a functioning democracy, we need a well-informed public that understands the causes of our economic problems and can distinguish between policies that are and are not in their interest.

As we have seen recently, those who are attacked do fight back and often get widespread public support. Resistance struggles have broken out in various forms across the country, most recently in the Occupy Wall Street and related movements. Even stronger resistance is taking place in many countries in Europe, such as Greece, Portugal, Italy and Spain. The class-based austerity war is global in scope, but so are the emerging struggles against the destruction of social democracy.

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Anmerkungen

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