



Sunday, February 28, 2010

Taxing the rich is conservative economics

By Ronald Woodbury

Sunday, February 28, 2010

On Jan. 26, Oregonians "cowboyed up" and voted to raise taxes to maintain basic public services like schools, assisted living, and roads.

Knowingly or not, they also voted for sound economic policy when they imposed much of the tax increase on our wealthiest citizens.

There is a conservative argument for increasing taxes to balance the budget. There is an even better, more conservative, argument for the greater wisdom of getting rid of the "kicker" clause in the state constitution.

If the kicker clause had not forced the state to give back \$1.1 billion in 2007 and instead saved that money in the state's "rainy day fund," there would have been no need for a \$730 million tax increase. The surpluses from the good years could cover the deficits of the bad years.

But my argument is different: Productive investments in cars and solar panels, iPods and research labs, power the economy. Rich people - and the financial institutions and corporations rich people own - have most of the money available to invest, but (understandably) don't invest productively if ordinary people don't have enough to buy what is produced.

Tax cuts favoring the rich, suppression of unions, and free trade have produced significant, sometimes dramatic, growth over the past 40 years, but these policies have backfired into a treacherous combination of four trends:

n Almost all the product of our economy's growth went to the already rich.

n Ordinary Americans developed an insatiable thirst for credit needed to maintain their standard of living. They bought houses with 0 percent down, borrowed on inflated housing values, and ran up credit card debt to all-time highs.

n Rich people wasted most of their windfall on speculative activities rather than productive investments. In the '80s they speculated in art and real estate. In the '90s on high-tech stocks. In the '00s in real estate again.

n The national debt as a percentage of the size of the economy (Gross Domestic Product, or GDP) rose from a traditional 20 percent to almost 40 percent in the '80s to some 50 percent in the '00s.

Up until the '80s, the federal government was impressively responsible in holding the national debt in line with GDP. Republicans passed the country's first income tax to pay for the Civil War. Franklin Roosevelt dramatically increased taxes on people and corporations to pay for World War II.

Enter the Great Delusion, the idea that high-tech had created a "new economy" in which sophisticated economic policies - conceived by self-identified "experts" - would make recessions a thing of the past! You could also call it the Great Arrogance.

As the tech boom went bust in 2001, economic policy-makers, instead of allowing a mild or modest recession, stoked the economy with artificially low interest rates, more tax cuts for the rich, and deficit spending.

An unfunded Medicare prescription drug program was initiated. Costs of the Iraq and Afghanistan Wars soared "off-budget" - meaning they cost a bundle but were camouflaged outside the budget and no taxes proposed to pay for them. Middle-class Americans joined big banks and the rich to whip excessively low interest rates into the wackiest of real estate booms.

By 2009, just when we needed lower interest rates and federal spending to fight the Great Recession, interest rates were already artificially low and the federal debt already out of proportion to the size of the economy.

The only thing that inspires the rich to make productive investments is real money in the hands of ordinary people ready to buy and governments ready to spend. But neither was ready.

It would have been much better if this country and its state and local governments had saved their surpluses in the good times, but given the hole we have dug ourselves, what Oregon voters did was the courageous thing to do.

Until we can turn around the economy and its debt, we have to tax and spend, shifting resources from the rich to the rest of us who will either spend or use the money to pay down our debt. The people will have jobs, government can pay down its debts, and the rich can not only do well but also do good.

Ronald Woodbury has a Ph.D. in history and economics. Following a career in college teaching and administration, he and his wife retired to Pendleton where their daughter lives with her husband and four children. Ron is an Elder at First Christian Church and coordinator of Elder Mediation for Blue Mountain Mediation.