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Right-Wing Economics vs. Reality
By Dan Jacoby

(Note: This is taken from a paper completed in June of 2008; I am skipping over all but the setup, the conclusion, and the part directly concerned with progressive taxes. The entire paper can be downloaded at: http://www.danjacoby.com/politics/columns/pdf_files/173_Right-Wing_Economics.pdf.)

Part 1. Introduction

For decades, we have been assaulted with right-wing fiscal rhetoric, to the point where almost everyone believes its postulates. Yet nobody has publicly, and fully, questioned those postulates to determine if they are accurate. After all, if the postulates are accurate, then by demonstrating that fact we can move forward together with confidence in our economic system. On the other hand, if the postulates are inaccurate, then we must change our system to meet the facts.

In this essay, I will demonstrate that the postulates on which right-wing fiscal rhetoric is based are inaccurate, and therefore that by following them we are creating an American economy – and a world economy – that is detrimental to both our immediate situation and our long-term future.

Finally, I will introduce a different set of economic postulates, which are based on facts and economic history, and which, if followed, can serve to maintain American prosperity and economic supremacy for generations to come.

Part 2. Right-wing Economic Postulates

I have chosen the following set of six postulates, all of which are clear positions that have provided the core of right-wing economic rhetoric for the past thirty years. Initially, these postulates were met with proper skepticism. After over a generation of propaganda emanating from highly funded “think tanks,” however, these postulates are generally accepted without question.

After the initial list, I will take each postulate in turn, and explain the rationalization behind each postulate, why the postulate is inaccurate, and where the rationalization went wrong.

The six postulates are:

1. *Entrepreneurs, and the venture capitalists who back them, create jobs.*
2. *Lowering tax rates results in more revenue for the government.*
3. *Reducing restrictions on business activities is good for business.*
4. *Free trade agreements increase economic activity and raise the standard of living.*
5. *Government cannot do anything domestically to increase economic activity.*
6. *A flat tax is fair.*

These postulates have become the standard frame of reference within which all economic discussions are conducted. Before we look more closely at these postulates, however, we should dispose of what appears to be a glaring omission – the right-wing claim that a balanced budget is always needed (except in case of emergency). While the balanced budget argument has seemed to be a right-wing mainstay for decades, every time we have a right wing government we also get the largest deficits ever. Clearly a balanced budget, for all their rhetoric, is not a right-wing economic postulate, but merely a red herring.

Let us now take a look at the postulates, one at a time, in greater detail, and question whether they are accurate.

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6. A flat tax is fair.

This is one of the right wing's favorite mantras. In 1996, businessman Steve Forbes ran for president on a flat-tax platform. Most recently, Mike Huckabee proposed a version of the flat tax that, he claimed, was really a progressive tax. It wasn't, but it took a close look to understand the difference between what he claimed and the truth.

Governor Huckabee's plan was to replace the federal income tax with a national sales tax on every item sold, combined with a fixed sum, which he called a "rebate," to be sent to every person in the country. There were two theoretical components to this scheme. First, it was assumed that low-income Americans would spend less money than high-income earners, and therefore pay less tax. Second it was claimed that the rebate, being a flat number for all Americans, would be a significantly higher percentage of low-income earners' incomes. The end result, therefore, would be that the more someone earned, the higher effective tax rate that person would pay.

The problem with these assumptions is that they require that all Americans spend an equal percentage of their income. This does not happen; wealthier people tend to spend less of their income, and save or invest a higher percentage, than poor people. As a result, rich people would actually pay a lower percentage of their income in federal tax than poor people, and the rebate often wouldn't make up the difference. Instead of being a progressive tax, or even a flat tax, the Huckabee proposal would, in many cases, be a regressive tax.

There are two reasons why a progressive tax, in which those who have or make more money pay a higher percentage of their wealth or income, is the best system. One reason is philosophical, the other practical.

The philosophical reason stems from the purpose and effect of the fact of government. Thomas Hobbes wrote that the natural life of man is "solitary, poor, nasty, brutish and short." Without government to create and enforce stability, nobody could accumulate wealth, since there would not only be too many others trying to take it away, but also be no way to protect wealth without spending it on the protection. Government is created, argued Hobbes, so that wealth could be accumulated, protected, and used to create more wealth that would benefit the whole society.

Hobbes went on to discuss his view on the cost of creating government in terms of sovereignty. His views on sovereignty were repudiated, both in his native England and in the United States, but his basic concept of the initial purpose of government has not been repudiated; governments are created to allow the accumulation and protection of wealth. The Revolutionary War was begun, and primarily fought, over taxes and other economic burdens that King George III and the British parliament attempted to levy on the colonies.

In short, government is nothing more or less than a formalized social compact, designed to preserve, protect and increase the wealth of the society's members. Since government is created to preserve wealth, it follows naturally that those with the most wealth are the greatest beneficiaries of government.

It follows as well that the benefit from government actually rises faster than does wealth. Since any person's needs are met with a certain amount of wealth, it is only the wealth above that "needs" line that is protected by government, since the amount "under the line" is consumed by the person's needs. Therefore, the higher one's wealth, the greater the percentage of wealth protected by government.

If the more wealth one has, the greater one benefits from government, and if the benefit increases faster than actual wealth, then the wealthier one is the greater share of one's wealth one should pay to support the government. This is the philosophical underpinning of the progressive tax.

The practical aspect of a progressive tax is much simpler to understand. Wealthier people can also afford to pay a higher percentage of their wealth than poor people. Paying a higher rate is therefore more less noticeable the wealthier one is. Since paying a higher percentage of wealth is less noticeable to a wealthy person than to a poor person, it makes sense to create a system where higher wealth is taxed at a higher rate.

In addition, money has a gravitational effect – it attracts more money. A person with money to spare has a range of options for making more money, while a person who is destitute lacks most of those options. This effect is often expressed by the phrase, "The rich get richer." It leads to a widening disparity between rich and poor, a disparity that can only be remedied in two ways. Government can intervene with policies designed to redistribute some of the wealth, or an internal revolt will do the same thing, though far more violently. A progressive tax code, which serves to redistribute some of the wealth, is beneficial to the wealthy, since it helps counteract money's gravitational effect without the violent revolution in which those with the most money have the most to lose.

A flat tax, which forces poor people to pay as much, or at least the same percentage of wealth or income, as rich people, is inherently unfair. It is unfair because those who benefit most from government are not required to pay the most for those benefits. It is also, in the long run, self-destructive, since it fails to counteract money's gravitational effect and create the relatively mild redistribution of wealth necessary to avoid revolution.

Part 3. Conclusion

As we have seen, none of the six right-wing postulates stands up to scrutiny. Every one of them is based on a false premise, which leads to erroneous conclusions. By stripping away the veneer of these false premises I have explained why these postulates, and the economic practices that stem from them, ultimately fail.

A proper economic policy, then, must be based on a vastly different, far more realistic, set of postulates, as follows:

1. Balance supply and demand to generate investment without economic bubbles;

2. Adjust tax rates based on what is needed to pay for government;

3. Institute enough restrictions on business activities to ensure safety of workers, customers and bystanders, and to maintain sufficient economic stability;

4. Generate trade policies based on what will raise the standard of living for workers here and abroad, not on what will only lead to short-term benefits for top management of multinational corporations and their major investors;

5. Maintain sufficient government control of the economic engine to avoid a return to the “boom and bust” cycle; and

6. Reestablish a progressive tax code.

These moderate postulates are designed to create an economic environment that allows for sufficient investment to balance the demand for goods and services, allow demand to grow, maintain stability in the business sphere, and require people to pay for the benefits they receive. They are based on reality rather than false assumptions and half-truths. As we have seen, deviating from reality and practicality inevitably results in greater disparity between rich and poor, which can have both unstable short-term, and disastrous long-term consequences.

By implementing practical economic policies, we can balance the budget, allow for business investment, raise the standard of living, and provide the long-term infrastructure needed to maintain our economic dominance throughout the next century.