FROM REAGANOMICS TO OBAMANOMICS

In a speech during his campaign for president in 2008, Senator Barack Obama said:

Right now there are millions of hard-working Americans who have been struggling to get by for quite some time. They have watched their wages stagnate and their health costs rise and their pensions disappear. Some have seen jobs shipped overseas, and others have found new ones that pay much less. Some tell their children they won’t be able to afford college this year; others send their youngest to a school that is crumbling around them. . . . For too long we have had a president who has clung to the belief that there is nothing America can do about this. He has looked away from these challenges and peddled a philosophy of “what’s bad for you is not my problem.” . . . Indeed, rather than addressing this growing sense of uncertainty and constricting opportunity for millions of working-class and middle-class Americans, this administration has accelerated these trends through its tax policies and spending priorities—to the point where there is greater income inequality now than at any time since the Gilded Age. (“Remarks of Senator Barack Obama: Our Common Stake in America’s Prosperity” 2007)

Obama was touching all the bases of the long-running liberal case against the consequences over the past three decades of the conservative policies known as “supply-side” or “trickle-down” economics—or simply “Reaganomics”—policies that he charged were still embraced by his opponent, Senator John McCain. Here and elsewhere Obama emphasized that these consequences have been especially harmful to college students, who have been increasingly “majoring in debt,” to quote the title of an article by political scientist Adolph L. Reed, Jr. Obama stressed the urgency of increasing financial access to college not only for individuals but for the country, saying that his proposed program “starts with providing every
American with a world-class education from cradle to adulthood. We know that in this economy, countries
that out-educate us today will out-compete us tomorrow. And we also know that China is already
graduating four times as many engineers as we do and that our share of twenty-four-year-olds with college
degrees now falls somewhere between Bulgaria and Costa Rica” (ibid.).

Before taking this course I had never thought much about the connection between government tax
policies and the cost of college at public colleges like the University of Tennessee. However, Reed wrote in
2004, following the national recession of the early 2000s, “As almost every state reels from the effects of
recession and tax cuts, legislators cut funds for higher education, the largest discretionary item in most state
budgets. Colleges respond with hefty tuition increases, reduced financial assistance, and new fees” (quoted
in Lazere, 20). As I write this shortly after Obama’s election, the nation and Tennessee seem to be heading
for an even worse recession, and sure enough, cutbacks in tax revenue and state funding have led to further
increases in UT fees and drastic cuts in course offerings and other services.

On the tax policies and other issues highlighted by candidate Obama, and on the more recent
question of whether Reaganomic deregulation of corporations was a major cause of the collapse of the
financial industry in 2008, liberal and conservative sources both present “irrefutable” facts and figures
supporting their side and refuting the other. For students and voters who are not specialists in economics, it
can be grossly confusing to figure out who is telling the truth and who is blowing smoke, so it is necessary
to approach the opposing claims with your BS detector in hand. One thing I have found is that talk radio,
cable TV news, newspaper op-ed columns, and many Internet news sources or blogs are only of limited
value because they usually provide little or no sourcing with which to check their claims. Journals of
opinion are often a better source, but the most useful level for college research is that of serious journalistic
or scholarly books and periodicals, along with reports from government agencies or private research
institutes (“think tanks”), all of which tend to provide full documentation through which their data can be
verified. Through that level of research, and with the application of some basic critical thinking and
rhetorical-semantic analysis, we can try to make at least some tentative judgments about which side and
arguments are more credible.

Maybe I should also preface my analysis by saying that my viewpoint in upbringing and education
is that of a middle-class Republican who chose a conservative major, business. Although my parents are
paying for most of my college expenses, I am still racking up substantial loan debt. This course is the first time that I have been exposed to a systematic presentation of liberal and leftist views on economic issues that challenge the assumptions I had absorbed from my family, teachers, and conservative media like Fox News. On many points, the liberal sources we have read make arguments that are hard for conservatives to refute. Our studies have also made it clearer why and how public and media opinion in the last few years, including the 2006 and 2008 elections—and especially in the current economic meltdown—may be shifting in a liberal direction on economic issues like taxation and government regulation of business after nearly three decades of dominance by Reaganomics. So I have been challenged to search for the strongest defenses of conservative positions pertinent to our current economic problems, some of which I will turn to later.

McCainomics versus Obamanomics

I will briefly summarize McCain’s and Obama’s positions on some key economic issues, then go on to explore the issues in the context of broader ideological oppositions between conservatives and liberals and of the reasoning and rhetoric in a few prototypical liberal and conservative authors. McCain’s and Obama’s positions differed most prominently, and predictably, on tax rates and government spending. On income tax, keep in mind that the top rate after World War II was 91 percent. President Kennedy reduced it to 70 percent, which President Reagan cut far more, to a low of 28 percent. But President George H. W. Bush raised that to 31 percent, and President Clinton again raised it, to nearly 40 percent. President George W. Bush then reduced that back to 35 percent, for a limited term that would expire in 2010 (Chait 2007).

Senator McCain picked up the mantle of Reaganomics in the 2008 election (after many years of opposition to it), opposing any tax increases and pledging to reduce deficit spending by cutting government waste, especially in legislation larded with special-interest “pork,” “earmarks,” or “add-ons.” His Web page affirmed that “John McCain will keep the top tax rate at 35 percent, maintain the 15 percent rates on dividends and capital gains, and phase out the Alternative Minimum Tax. Small businesses are the heart of job growth; raising taxes on them hurts every worker” (“John McCain Tax Cut Plan” 2008a). Obama favored either annulling Bush’s 35 percent lid in 2009 or not renewing it in 2010, and returning to Clinton’s 40 percent on income over $250,000 for couples and $200,000 for single payers.
Both candidates said they would maintain earlier tax cuts on lower income levels, but “Barack Obama’s Comprehensive Tax Plan” (2008a) Web page went further: he would offer “thousands of dollars in new tax cuts for saving, education, mortgage costs, and child care, as well as up to $1,000 per family to make work pay. Under the Obama plan, the typical family will pay tax rates that are 20 percent lower than they faced under President Reagan,” and “the Obama plan would cut taxes for middle-class families by three times more than Senator McCain’s plan.” (As is frequent in such public statements, the definition of “the typical family” and “middle class” was vague.) According to Jane Sasseen’s article in *Business Week*, “Taxing and Spending: McCain vs. Obama,” Obama also charged that “‘Senator McCain wants to add $300 billion more in tax breaks and loopholes for big corporations and the wealthiest Americans.’” The same article, however, reports that McCain “has wasted no time in trying to paint Obama as a typical tax-and-spend liberal. He argues that if the senator from Illinois is elected, America is in store for the biggest tax increase since World War II. ‘Under Senator Obama’s tax plan, Americans of every background would see their taxes rise—seniors, parents, small-business owners, and just about everyone who has even a modest investment in the market.’” (See Sasseen 2008 for a survey of various economists’ analyses of the accuracy of these opposing claims.)

On corporate taxes, here is a key item in the “John McCain Tax Cut Plan”: “Cut the Corporate Tax Rate from 35 to 25 Percent.” A lower corporate tax rate is essential to U.S. competitiveness. America was once a low-tax business environment, but as our trade partners lowered their rates, America failed to keep pace, leaving us with the second-highest rate among the world’s advanced economies.” In one of their televised debates, Obama challenged McCain’s claim here on the grounds that this “nominal” rate has never been enforced because of massive loopholes that have led to actual rates far below those of most other industrial democracies. “Barack Obama’s Comprehensive Tax Plan” detailed many of these loopholes, which he claims amount to hundreds of billions of dollars in lost revenue yearly. While closing these loopholes, Obama also “will repeal tax breaks and loopholes that reward corporations that retain their earnings overseas, and will use those savings to lower corporate tax rates for companies that expand or start operations in the United States.”

Other disputed kinds of taxes, along with capital gains, include contributions to Social Security, the Inheritance Tax, and the Alternative Minimum Tax. On each of these, Obama and McCain followed
predictable lines in which conservatives favor flat-rate cuts, which they say benefit all classes equally (or complete elimination of some like the Inheritance Tax and Alternative Minimum Tax), and liberals favor more progressively structured cuts, which means that tax rates for the lower levels are reduced while rates for the upper ones are increased. (For rhetorical patterns in arguments on these points, see Lazere 364–368). Capital gains from selling stocks or property, for example, have been reduced under Reaganomic policies to a flat rate of 15 percent, less than half the rate of income from wages. Conservatives like McCain defend this policy because they say it encourages reinvestment of profits and because most beneficiaries are middle class, but liberals say the biggest individual gainers are the richest, who own by far the most securities and property and don’t need further incentive to invest, so liberals would raise this tax on the few at that level closer to the top rate on income tax, while lowering it for the many at the lower levels. In fact, Obama claimed his plan “will eliminate all capital gains taxes on investments in small and start-up firms” (“Barack Obama’s Comprehensive Tax Plan” 2008a).

McCain made much of Obama’s televised encounter in Ohio with “Joe the Plumber,” who said he was voting for McCain because he hoped to start his own plumbing company, worth over $250,000, so Obama’s increase in personal and corporate taxes would hurt him. Obama supporters, however, found out that Joe was only making some $40,000 in salary, with little prospect for buying a company, and they pointed out that Obama’s plan would benefit him more than McCain’s. Joe wasn’t convinced, and he became an active campaigner for McCain-Palin.

On college costs, Obama’s Web page “Making College Affordable for Everyone” (2008b) quotes one of his speeches: “We need to put a college education within reach of every American. That’s the best investment we can make in our future. I’ll create a new and fully refundable tax credit worth $4,000 for tuition and fees every year, which will cover two-thirds of the tuition at the average public college or university. I’ll also simplify the financial aid application process so that we don’t have a million students who aren’t applying for aid because it’s too difficult. I will start by eliminating the current student aid form altogether—we’ll use tax data instead.” (Obama seemed to flip flop on that $4,000 figure. In other speeches I heard, he implied that it would only apply once, not every year, and that recipients would be required to perform a stint in public service after college.) Another section, titled “Expand Pell Grants for Low-Income Students,” says:
Two decades ago, the maximum Pell Grant covered 55 percent of costs at a public four-year college, compared with only 32 percent today. The first bill Barack Obama introduced in the U.S. Senate would have helped make college more affordable for many Americans by increasing the maximum Pell Grant from the limit of $4,050 to a new maximum of $5,100. Obama has worked in a bipartisan way on the Senate Health, Education, Labor, and Pensions Committee to achieve an increase in the Pell Grant to $5,400 over the next few years. As president, Obama will continue to work to ensure that the maximum Pell Grant award is increased for low-income students. Specifically, he will ensure that the award keeps pace with the rising cost of college inflation.

McCain’s Web page “John McCain’s Higher Education Policy” (2008b) does not indicate support like Obama’s for increasing student tuition subsidies and grants, but simply says, “We must rise to the challenge and modernize our universities so that they retain their status as producers of the most skilled workforce in the world. The answer is not to impose more regulations on institutions, but to encourage the government to support innovative approaches to education, removing regulatory barriers that prevent us from moving forward with new ideas.” Specifically, he calls for simplification of tax benefits for higher education and of the administration of student loans. Further, he argues concerning loans, “We have seen significant turmoil in student lending. John McCain has proposed an expansion of the lender-of-last-resort capability of the federal student loan system and will demand the highest standard of integrity for participating private lenders. Effective reforms and leveraging the private sector will ensure the necessary funding of higher education aspirations and create a simpler and more effective program in the process.”

The Broader Ideological Context

All these differences between Obama and McCain are implicitly based on the core ideological oppositions between conservatives and liberals or leftists that are outlined in Chapter 16 of our textbook, *Reading and Writing for Civic Literacy* (Brief Edition), by Donald Lazere:

The basic position of Presidents Reagan, both Presidents Bush, and their conservative supporters [including McCain in 2008] is that U.S. government has been overloaded trying to provide for the
public welfare in programs like education, Social Security, Medicare, welfare, unemployment insurance, minimum wage laws, and so on. Moreover, excessive taxation and bureaucratic government regulation of business (especially for environmental protection) have stifled the productive power of free enterprise. This overload on government has led to inflation, deficit spending, and dependency of beneficiaries of programs like welfare on “handouts.” Therefore, if government spending on domestic programs is reduced and taxes cut by equal percentage rates across all income lines (with the largest savings going to wealthy individuals and corporations), private enterprise will be freed to function more effectively; it will be more efficient than government and the public sector of the economy in generating jobs, producing more tax revenue, and filling other public needs. (377)

Liberals believe that:

Reaganomic policies have had the effect, intentionally or unintentionally, of entrenching plutocracy by making the rich richer and the middle class and the poor poorer and by eliminating needed welfare programs and productive areas of public spending and employment. Government spending primes the pump when the economy slumps and provides services not offered by the private sector, while progressive taxation serves to reduce the gap of wealth and power between the rich and the rest of the population (Keynesian economics). The conservative line of argument against Keynesian economics is largely a propaganda program engineered by wealthy special interests to rationalize their own greed. (378–379)

The difference between liberals and leftists or socialists is that, “while liberals (and Democrats) want to save capitalism by regulating it, socialists want to replace it altogether” (with a socialist economy) (278), because they think that “liberal government reforms and attempts to regulate business are usually squashed by the power of business lobbies and that even sincere liberal reformers in government offices usually come from or represent the ethnocentric viewpoint of the upper classes” (278). It is too early to tell whether President Obama will succumb to these restrictions on liberal reformers. In spite of many
conservative efforts to label him a “socialist,” he has appointed representatives of “the upper classes” to top positions and has repeatedly identified himself as a capitalist, pledged only to restore more regulations and slightly higher taxes on business, and to implement several Keynesian public job-creation programs to “prime the pump” of economic recovery.

The distance between Democratic Party liberals like Obama and socialists, or even current European social democrats, who favor a democratically administered mixed economy between capitalism and socialism, is evident in the concluding chapter in Steve Brouwer’s 1998 book *Sharing the Pie*, titled “If We Decided to Tax the Rich,” which compares the U.S. economy unfavorably with Western Europe and outlines a program of social-democratic reforms along with means of paying for them (quoted in Lazere 290–294). The reforms include:

- Full employment with a minimum wage comparable to France’s $8 in 1994, and a work week reduced to 32–35 hours
- Universal, federally funded health care
- Free higher education and job training for all
- Rebuilding the nation’s schools, roads, bridges, sewers, and parks
- Quality day care for all

Brouwer argues that these programs could easily be funded by measures such as:

- Restoring upper-class tax rates on individuals and corporations to their level in the 1950s and 1960s [70–91 percent, compared to Obama’s 40 percent]
- Instituting an annual wealth tax of 3 percent on the richest 1 percent of Americans similar to that in Sweden
- Restoring and increasing the inheritance tax, which has steadily been phased out, on the wealthiest Americans
- Assessing Social Security taxes on the highest salaries and on all forms of property and financial income [all income over $76,000 per individual is now exempt from required contributions]
Brouwer’s call for free higher education for all (far beyond Obama’s limited proposals for curbing college costs) echoes that of Reed, and both are based on the long-established custom in Europe and elsewhere, which is justified by the belief that the more access students have to higher education, the higher the economic and citizenship returns are for the entire society.

Many conservative sources, of course, vehemently refute leftist arguments like Brouwer’s, and even most of the liberal sources I have read don’t go as far to the left as Brouwer in their prescriptions. Many are limited, like Obama, to wanting to reverse the most extreme inequalities that they claim have resulted from three decades of Reaganomics. One of the best-argued liberal views here that I have read is “The Age of Irony?” by Susan Searls Giroux (formerly a professor of Education at Penn State, now at McMaster University in Canada), which appeared in a scholarly quarterly for college English teachers, *Journal of Advanced Composition*, in 2002.

Giroux’s Case against Reaganomics

Giroux concisely sums up the liberal case in historical and economic terms. (Some confusion arises from her derogatory use of the term “neoliberalism” to describe the return in recent decades, by both Republican and Democratic administrations, especially Clinton’s, to policies associated with the eighteenth-century meaning of liberalism as laissez faire capitalism freed from government control along with unrestrained corporate globalization.) Her comprehensive account is worth quoting at length:

In the decades following World War II . . . inequality was kept in check in two principal ways. One was to redistribute income through progressive taxation and investment in public goods and services for the benefit and security of the commonweal (in the form of quality public schools, hospitals, transportation systems, social security, Medicare, etc.). The second was to ensure American workers the opportunity to earn a living wage, if not the much vaunted American dream.

With the rise of neoliberal economics, Americans have witnessed a profound restructuring of the tax system in the 70s and 80s such that “by 1995, the richest 1 percent of Americans had gained over a trillion dollars, and now owned over 40 percent of the nation’s
wealth” (Zinn). That’s money transferred out of public coffers directly into the pockets of the rich—the triumph of “trickle-down economics.” In a *New York Times Magazine* article entitled “For Richer: How the Permissive Capitalism of the Boom Destroyed American Equality,” Paul Krugman describes the “big winners” of successive tax cuts in the following terms: “The top 10 percent contains a lot of people whom we would still consider middle class, but they weren’t the big winners. Most of the gains in the share of the top 10 percent of taxpayers over the past 30 years were actually gains to the top 1 percent, rather than the next 9 percent. In 1998 the top 1 percent started at $230,000. In turn, 60 percent of the gains of that top 1 percent when to the top 0.1 percent, those with incomes of more than $790,000. And almost half of those gains went to a mere 13,000 taxpayers, the top 0.01 percent, who had an income of at least $3.6 million and an average income of $17 million.” (970)

Giroux continues:

In addition to a massive tax restructuring that has starved social programs for the benefit of the very rich, we’ve also seen the stagnation of wages for working people. According to an analysis of Bureau of Labor Statistics data compiled in the 1999 *Economic Report of the President*, the median hourly wage in 1998, when adjusted for inflation, was 7 percent lower than in 1973, when Richard Nixon was in the White House. Not only are workers today earning less than they were twenty-five years ago, but executive pay has skyrocketed. CEO salaries and perks were recently brought to light in the wave of scandals involving Enron, Worldcom, Global Crossing, and Adelphia, where corporate CEOs were running companies for the sole purpose of making themselves fabulously wealthy at everyone else’s expense. Nor did Ken Lay et al. prove any kind of exception to the general rule of corporate governance. In fact, the pay gap between top executives and production workers grew from 42:1 in 1980 to a staggering 419:1 in 1998 (excluding the value of stock options) according to *Business Week*’s “Forty-ninth Annual Executive Pay Survey.” The same report notes that “had the typical worker’s pay risen in tandem with executive pay, the average production worker would now earn $110,000 a year and the
minimum wage would be $22.08” instead of the current wage of $5.15. [In 2008 it was $6.55.]
And how does this wage figure in terms of yearly salary? A 40-hour week at $5.15 per hour “nets
a pre-tax annual income of $10,300, or about $6,355.00 below the official 1998 poverty line for a
family of four.” In contrast to these poverty wages, “the average large company chief executive
was paid $10.6 million, a 36 percent jump over 1997.” In short, the consequences of
neoliberalism’s concerted attack on progressive taxation, social welfare, and a living wage has
meant that “from 1983–1997, only the top 5 percent of households saw an increase in their net
worth, while wealth declined for everyone else” according to the January 2000 Federal Reserve
Bulletin. (970–971)

Furthermore, Giroux says:

According to Jeff Gates, author of Democracy at Risk: Rescuing Main Street from Wall Street, the
work year for average Americans has expanded by 184 hours since 1970, which translates into an
additional four and a half weeks on the job for the same or less pay—outpacing even the
workaholic Japanese. Citing Bureau of Labor statistics, Gates reports that “the typical American
now works 350 hours more per year than a typical European—almost nine full weeks.” Those
Americans “fortunate” enough to be working are working more than ever in spite of the fact that
“they have less parental leave, less affordable day care, and the least number of paid holidays and
vacations of all industrialized nations” writes Noreema Hertz, author of The Silent Takeover:
Global Capitalism and the Death of Democracy. (971)

One outstanding feature of Giroux’s article is that it goes beyond economic statistics to consider
the psychological, ethical, and intellectual consequences of declining real income and increased working
hours for individuals:

Citizenship requires time for the task of locating and researching various positions on key policy
debates (a task even more complicated given the paucity of alternative views in the dominant
media sources), for reading and critiquing, sorting out ideological claims buried in “the facts,” and weighing alternative positions in terms of the human costs and social costs as opposed to simply financial costs. Without that time, Paul Street concludes, “brain-weary worker-citizens tend to become overreliant on the often bad, generally biased, and heavily filtered information manufactured by those whose salaried task is to shape mass opinion in the interests of those who pay their salaries.” The upshot is apparent public approval for policies that sharply mitigate against the interests of ordinary people. This is not simply a matter of being “duped” or cajoled into political indifference. It is a function of deprivation, of being deprived of the information one needs to make informed decisions on matters of grave social concern, of being deprived of time to think through the choices and consequences of public policy decisions, of being deprived of one’s family and community to reinforce the ethical fibers of the social contract, and deprived of any sense of security to foster anything other than the frightened reactions of the besieged. (972–973)

This passage provides a saddening, humanistic perspective reminiscent of many works of modern literature about alienation and the loss of individual control of one’s life in authoritarian societies. Despite being a professor of education, Giroux does not directly discuss education here, although it is implicit when she says “citizenship requires time for the task of locating and researching various positions” that such time and resources can best be found in college liberal arts studies (as in writing this kind of paper), and the curtailment of students’ time, financial access, and psychic energy for those studies is the same problem raised by Reed in “Majoring in Debt.” (Giroux does connect these issues directly with education in a book she coauthored with Henry Giroux, Take Back Higher Education.)

Giroux’s article is clearly reasoned and thoroughly documented, with footnoted scholarly sources including the Nobel Prize–winning economist and columnist Paul Krugman. Most of her sources are predictably liberal or leftist, but they also include Business Week, a bastion of capitalist conservatism, and the nonpartisan Federal Reserve Bulletin. Other liberal sources I have read provide further documentation for the general accuracy of the data and trends here, and even most conservative sources do not directly refute such data (although they make other lines of argument in broader rebuttal, as we will see). One questionable sentence is, “With the rise of neoliberal economics, Americans have witnessed a profound
restructuring of the tax system in the 70s and 80s such that ‘by 1995, the richest one percent of Americans had gained over a trillion dollars, and now owned over 40 percent of the nation’s wealth’ (Zinn).” This could be a reductive fallacy in implying that restructuring of the tax system was the only cause of the rising income gap, although Giroux elsewhere refers to the “concerted attack on progressive taxation, social welfare [not just welfare programs per se, but “investments in public goods and services” including education], and a living wage,” plus neoliberal policies by Republican and Democratic leaders alike sending U.S. jobs abroad and freeing corporations from regulations, with the result that “CEOs were running companies for the sole purpose of making themselves fabulously wealthy at everyone else’s expense.”

On a few other points, Giroux does not clearly define key terms like working people, the typical worker, the average production worker, and average Americans—although we would need to look up the sources she cites to see if they provide definitions. She says a forty-hour week at $5.15 per hour nets a pretax annual income of only $10,300, but she doesn’t say how many full-time workers are at that level. Conservatives like Elizabeth Carnell argue that many minimum-wage workers, like college students, are only in that position temporarily and voluntarily. The minimum wage has now been raised to $7.25, although at that level, working forty hours a week, fifty-two weeks a year, would only net about $15,000, still below the poverty line. Points like these require further research to verify definitions and data and compare liberal versus conservative documentation.

Does Laffer Have the Last Laugh?

In searching for the strongest conservative rebuttals to these liberal arguments, I decided to go straight to the horse’s mouth, so to speak—a scholarly article written in October 2007 by Arthur Laffer, one of the original theorists of supply-side economics and an advisor to President Reagan in its implementation. A former professor of economics at the prestigious University of Chicago, currently head of a consulting firm that does “supply-side investment research” and lecturer at the Republican-aligned Heritage Foundation, he is the inventor of the “Laffer Curve,” a hypothesis that lowering taxes on the rich will increase tax revenue and trickle down to benefit all classes as increased productivity exceeds revenue from the initial higher rate. This article, “The Assault from the Left, Part I: Fact vs. Fiction,” posted by National Review, is a rebuttal to
criticisms of Laffer and supply-side by Jonathan Chait in a New Republic excerpt from his book The Big Con, in which Chait argued along much the same lines as Giroux, Krugman, and Brouwer.

Laffer’s article runs twelve single-spaced pages in small print, thoroughly documented with graphs and footnotes. He makes several credible arguments. To begin with, he cites the liberal economic icon John Maynard Keynes confirming that tax cuts can stimulate the economy and increase revenues, and further cites Democratic President Kennedy’s chief economist Walter Heller testifying in 1977 that Kennedy’s reduction of the top income tax rate from 91 percent to 70 percent indeed increased revenues.

He goes on: “What people pay is not what the government receives. It takes lots and lots of resources to raise taxes. People hire accountants and lawyers, shift assets, move, change jobs, cheat, and all sorts of other things to avoid paying taxes. Government hires all sorts of revenuers and spends mega-bucks to collect taxes. These wasted resources can be huge, and to scoff at someone’s reticence to raise tax rates is inappropriate” (4). Laffer next cites a paper by two presumably liberal economists at leftist bastion U.C. Berkeley confirming the negative effects of increasing tax rates. It is effective rhetorically to cite those on the other side in support of one’s own position, although we would need to read the full paper cited in order to make sure the brief quotations aren’t taken out of context.

Moving on to changes in income distribution in the past three decades, Laffer surprisingly concedes much to Chait and other liberals: “While the meaning of these figures is hotly contested, these data do illustrate what Chait claims. Income distribution is becoming far more skewed. The rich are becoming a lot richer, especially after the adoption of supply-side economic policies such as sound money, low taxes, free trade, freer immigration, less unions, more business competition, less regulation, and other free market economic policies. The reality of less equal distribution of income would be hard to deny even if I wanted to deny it, which I don’t” (6). But, he adds, “the increasingly unequal distribution of income during the era of supply-side economics, however, has resulted from the poor increasing their incomes at a rate that has not kept pace with the phenomenal gains in income the rich have experienced—not from the poor getting poorer” (6). Later returning to this point, he concludes:

My dream has always been to make the poor richer, not to make the rich poorer. And, in fact, it is an added bonus if the rich get richer while the poor get richer, as well. My favorite quote on this subject
is from President John F. Kennedy, who said: “No American is ever made better off by pulling a fellow American down, and every American is made better off whenever any one of us is made better off. A rising tide raises all boats.” Mr. Chait, the challenge I’ll place to you is, would you like to see less inequality in the distribution of income if it also meant that all income groups suffered income reductions? (12)

Along the way to this conclusion, Laffer discusses some interesting further factors concerning the income gap in relation to the global economy. He presents evidence that many other countries in the contemporary world—including social democracies and communist dictatorships—have been adopting supply-side principles. He further asserts:

Income inequality is a global phenomenon. Both capitalistic and socialistic countries are facing increased income inequality. For instance, a country like Sweden, which no one can accuse of having implemented supply-side economics, has experienced a five percentage point increase in their [sic] Gini coefficient (the economist’s measure of income inequality) from the early 1980s to the early 2000s. The true cause of income inequality probably has much more to do with globalization and improvements in technology than with American tax cuts on the rich. (8)

That “probably” needs more documentary support than Laffer provides, and this whole line of argument requires more research to verify than I have time to do here, but it is potentially a strong point for conservatives that is downplayed by liberals. Maybe Laffer has developed these arguments in a book that he just coauthored, The End of Prosperity: How Higher Taxes Will Doom the Economy—If We Let It Happen, but I haven’t had time to read it.

In a final section, “Citizen Quality of Life,” Laffer provides data and graphs that he says measure the progress made by all classes and demographics of Americans in recent decades—in home ownership, real median family income, employment rates, and racial and gender equality.
These measures, plus the graphs displayed earlier on U.S. inflation and interest rates, portray a picture of unprecedented prosperity for this wonderful country of ours. Take the time to contemplate each of these indicators of U.S. welfare and just how pervasive the effects are—how deep they penetrate into each and every one of our fellow citizens’ lives. The prosperity of the past quarter century is amazing and, in my view, it is a direct consequence of bipartisan supply-side economics.

This rosy view, of course, is quite the opposite of the data presented by liberal sources like Giroux, and much further research would again be needed to evaluate their “dueling statistics.” I can’t resist noting, though, that one of Laffer’s points, about the impressive increase in home ownership, provides a classic example of the ironic unpredictability of history, in light of the collapse of the housing market, subprime-mortgage scandals, and millions of foreclosures within a year after Laffer’s article.

I have indicated Laffer’s strongest arguments and points on which further research would be needed to weigh his data against that of liberals. On several points, however, I have spotted possible rhetorical and semantic weaknesses. To begin with, as I understand the Laffer Curve, it suggests that tax rates that are either too high or too low can be counterproductive. But, at least from this article and other accounts of supply-side theory I have seen, its advocates tend to be vague about where the point of diminishing returns is at the bottom. President Kennedy cut the top income tax from 91 percent to 70 percent—but not in half again as in the present 35 percent. Should it be even lower than 35 percent? How much? Zero? Should taxes be progressive at all? Both liberals and conservatives tend toward post hoc, ergo propter hoc, or the reductive fallacy in implying that lowering or raising taxes has been the sole cause of subsequent economic trends, but the historical record seems to indicate that the 91 percent top rate after World War II, and President Clinton’s increase from 31 percent to nearly 40 percent, were both accompanied by economic growth and government budget surpluses, while President Reagan’s and George W. Bush’s tax cuts were accompanied by record deficits and, by the end of Bush’s second term, what many said would be the worst economic crash since the Great Depression. This appears to disprove the argument that raising taxes is certain to cause bad economic consequences while lowering them is certain to cause good ones, independently of any other variable. (See Chait 13–20 for support on these points, with specific
reference to Laffer.) Ironically, though, some liberals like Brouwer, Giroux, and Paul Cay Johnston argue that Clinton’s economic policies in fact benefited the rich and harmed the working class even more than those of Republican presidents before and after.

The metaphor of a rising tide lifting all boats implies a more-or-less proportionate rise in all income groups. Laffer’s claim that the poor have not gotten poorer, but have just not gained at a proportionate rate with the rich, seems like semantic hair-splitting in light of statistics like Giroux’s: “The pay gap between top executives and production workers grew from 42:1 in 1980 to a staggering 419:1 in 1998 (excluding the value of stock options). . . . ‘Had the typical worker’s pay risen in tandem with executive pay, the average production worker would now earn $110,000 a year and the minimum wage would be $22.08’ instead of the current wage of $5.15.” Laffer, like many other conservative sources such as Carnell, does analyze ways in which generally accepted data about poverty and low wages are skewed to make poverty appear more extensive and extreme than it is, which is a valid point, although none of this kind of analysis that I have seen does much to diminish the magnitude of disproportions cited by Giroux.

Laffer also may be posing a false dilemma when he asks Chait, “Would you like to see less inequality in the distribution of income if it also meant that all income groups suffered income reductions?”—implying that any limit on the constantly increasing rate of inequality, as in the gap between CEOs and their workers, amounts to “pulling a fellow American down.” A second implication is that any higher taxes on the top brackets than on lower ones will, directly or indirectly, harm both the rich and everyone below them. It seems simple logic, though, that under just about any feasible tax system, even a flat tax, people who make the most money will pay the most in taxes without being “pulled down” or “suffer[ing] income reductions.” That is, when your income increases, so do your taxes, in proportion, but you don’t suffer a net reduction. The claim also evades the liberal argument that taxes paid by the rich are simply the operating costs for the governmental economic pump-priming and public services—like K–12 and college education for training of corporate employees, to say nothing of national defense—from which everyone benefits, the rich most of all, who can more easily afford to pay a higher share.

In addition, Laffer’s claim implies the familiar conservative lament that any increase in taxes on the super-rich (even just back to the rates of the prosperous periods of ten or thirty years ago) is a “penalty,” a “punishment,” or a “disincentive” for working harder. This line of argument again manipulates
“plain folks” rhetoric in conjuring up the picture of middle-class workers being discouraged from working more or small entrepreneurs avoiding risking their modest capital because of excessive taxes. McCain took this line in the passages I quoted above, implying that under Obama’s tax plan “Americans of every background would see their taxes rise” (“every background” being more ambiguous than “every income level”). McCain advertised all of his proposed tax cuts as benefiting the average worker and “small business” while downplaying the vastly larger benefits to the rich and big business in each category of taxation; he never hinted that the biggest beneficiaries of Reaganomics have been billionaire stockholders, Wall Street fund managers, high-rolling speculators, and CEOs with hundreds of millions in annual salaries and stock options. Didn’t Obama really steal the thunder from Republicans selling across-the-board tax cuts for their alleged benefits to the middle class by offering to cut income taxes on families earning less than $250,000 a year and capital gains taxes on small businesses far more than McCain did, while increasing rates on higher incomes and profits?

Along the same lines, conservatives like Laffer argue that income is directly proportionate to hard work and skill (which they say are discouraged by high taxes). But Giroux says the ratio of what top CEOs make compared to their workers increased 1,000 percent in the two decades after Reagan’s election. Could Laffer seriously claim that they worked 1,000 percent harder or became that much more skillful, especially when, according to Giroux, “the work year for average Americans has expanded by 184 hours since 1970, which translates into an additional four and a half weeks on the job for the same or less pay”? In 2007, conservative columnist Jonah Goldberg, arguing along the same lines as Laffer, disapprovingly quoted Austan Goolsbee (another University of Chicago economist like Laffer), one of Obama’s top economic advisors before and after the 2008 election, as follows: “‘I no more believe that the hedge-fund managers are going to quit working at billion-dollar hedge funds because tax rates go up 5 percent than Alex Rodriguez will quit playing baseball because they put in a salary cap.’” (I wonder whether multimillionaire athletes like A-Rod really play that much harder than those in the days when incomes were in five figures, or whether their rewards are instead so extravagant that they are inclined to slack off.) Goldberg, however, used Goolsbee’s statement as evidence that Obama would impose “confiscatory” rates on the rich.

Conservatives also tend to muddy the waters semantically by obscuring the difference between income derived from “work” as it is usually conceived, and from investments, which can grossly exceed
even executive salary. People whose net worth is in the hundreds of millions or billions are multiplying their fortunes all the time through capital appreciation and reinvestments managed by expert consultants. (For sure, they sometimes lose a lot, too. According to *Forbes*, Bill Gates was down to $57 billion in 2008, a loss of two billion from 2007. At that rate of loss, after about twenty-eight years he’d be down to his last billion!) They already have more money than anyone could spend, even in a losing year, and what they owe in tax on their yearly income doesn’t cut at all into their net worth, the yearly appreciation of which isn’t subject to income tax unless profits are cashed out as capital gains—at 15 percent. So it seems to me that they would consider whatever income taxes they have to pay negligible, even if it amounted to all their additional income for the year. (Nevertheless, a lot of them still hire accountants, lawyers, lobbyists, public relations agents, think tanks, and cheerleaders in the media to try to minimize their tax bite and tug at the heart of the public about how oppressed by taxes they are.) Maybe a stronger line of antitax argument for conservatives would be that large accumulations of private investment capital are necessary to the national economy, but Laffer and others don’t seem eager to emphasize this line rather than plain-folks appeals to middle-class hard work and thrift.

One other weak point that strikes me in Laffer and other conservatives is their claim that tax increases on the rich are futile because of the government bureaucracy needed to reinforce them and because of the multiple loopholes the rich will find to get out of paying them. Well, income taxes have been cut in half on the top bracket since 1980, but has the IRS bureaucracy been cut in half? And as Obama emphasizes, the rich still have devised billions of dollars’ worth of loopholes at the lower rate. Warren Buffett testified in Congress in 2007 actually favoring higher taxes for billionaires like him, and admitted that his secretary had to pay at nearly twice the rate he got away with through loopholes (*ABC News*). Until some way is found to stop rich people from undermining tax reforms, it seems that they are going to rig the system no matter how low their rate is, so in my opinion rates might as well be higher than lower in order to get *something* out of them.

Frum’s Appeal to Conservatives

The last source I will consider here is a particularly interesting one in its mix of liberal and conservative views. It is David Frum’s (2008) “The Vanishing Republican Voter: Why Income Inequality is Destroying the G.O.P Base,” in the *New York Times Magazine*. Frum is a prominent conservative journalist and one-
time speechwriter for President George W. Bush. He resigned in 2002 and has become a critic of the Bush administration for abandoning conservative principles. This is a surprising article in upsetting expectations of “predictable patterns of political rhetoric” (Lazere 283), especially in light of demographic shifts in the past decade or so. Frum concedes even more than Laffer to liberals about rising income inequality and how it is working electorally against Republicans who have been in denial about it. A significant twist, though, is his assertion that upper-income earners and those with higher levels of education are becoming more Democratic: “7 out of America’s 10 best-educated states are strongly ‘blue’ in national politics . . . . Of the 10 least-educated, only one (Nevada) is reliably Republican” (51). (Oops—Nevada voted for Obama in 2008.) This contradicts the common assumption of the equation of wealth with conservatism, but his explanation seems to be that those with higher educations and income now consider Democrats more competent in managing government and the economy. Conversely, Frum continues, the Republicans constantly try to present themselves as the party of populism, against liberal elites, but under the Bush administration, the middle and working classes have lost ground economically and lost faith that Republicans care about them.

He concludes: “Equality in itself never can or should be a conservative goal. But inequality taken to extremes can overwhelm conservative ideals of self-reliance, limited government, and national unity . . . . We must develop a positive agenda that integrates the right kind of egalitarianism with our conservative principles of liberty” (51). So Frum contradicts other conservative sources like Laffer who either deny that inequality is rising or that it is a bad thing. His message is that Republicans cannot hope to regain the high ground from Democrats until they face up to the danger of increasing inequality in a way that none of the other conservative sources I have studied have done—a message that was apparently lost on John McCain in running against Obama.

Where Will Obamanomics Lead?

In conclusion, President Obama took office in the middle of what many experts called the worst economic crisis since the Great Depression. No one knew whether conventional economic policies—liberal, conservative, or other—should be followed or would work in these unprecedented conditions. Would Obamanomics turn out to be socialist, as conservatives warned? Would Obama end up as another example of Democrats who “appeal to liberal constituencies to get elected, but then sell them out” to the
interests of the rich as leftists warned (Lazere 378)? Or something completely different? Whatever the unpredictable outcome, the studies I have undertaken in writing this paper have at least empowered me to better understand the opposing policies in play here and the predictable rhetorical patterns of the players.

Works Cited


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