

Taxes, the Budget, and the Deficit

After World War II we had to gear up to recover from the war and change over from a war economy to a peace time economy. The first thing we had to do was provide housing for the returning soldiers and their growing families. Thus began “suburbia” and federally funded housing to help jump start this building boom. When General Eisenhower became president he recognized the growing importance of transportation and began the interstate highway system. The current interstate system was also jump started by investments by our government. Also included in this were investments in our electrical grid and the building of dams, levies, and bridges. In 1957 the Soviet Union launched the first man-made object to rotate the earth which began what was called the Sputnik program. Because they beat the US in this endeavor, this sparked an increase in educational spending, especially in the fields of math and science. It also gave rise to NASA and to ARPA, which was the organization which began the internet. All of this took money—money spent by our government. But our parents and grandparents made these investments in our country and our economy boomed!

In President Obama’s state of the Union message he painted a picture of the future of the United States in which we invest more in education, technology, and a modern infrastructure. In order to keep up with countries like China and India we need this. The problem is that in order to invest in these essential items, we need money. We need both private and government investment so we can go forward and retain our status in the world.

But what is actually happening? On the national level the battle cry is cut the budget, cut the deficit, cut government spending. It would be hard to make the investments we need and cut these things at the same time. And everyone cries, cut taxes! The fact is that in 2009 and 2010 Americans paid the lowest federal income tax as a percentage of their income that they have since the 1950’s. In fact, according to Jeffrey Sachs, Professor of Economics at Columbia University, we pay the lowest total tax revenues as a share of national income as any high-income country in the world.

The deal made by President Obama with the Republican’s will lower our tax revenues this year by \$350 billion. In addition, another \$350 billion will be lost in corporate income taxes when companies like Best Buy, Target, and Exxon open tax shelters in the Cayman Islands to shelter their profits from US taxes. The wealthy will continue to use their multiple tax loopholes, which although they are available to all Americans, benefit the wealthy the most. One example is deductions for charitable contributions. Low-income families can’t buy a \$10,000 painting, hold it for a year, get a friendly appraiser to say its’ worth \$60,000 and give it to charity to get a \$60,000 deduction from their reported income. That little trick saves more in taxes than the \$10,000 that was paid for the painting. Warren Buffet, at a recent \$4,600 per seat fund raiser said, “The 400 of us here pay a lower part of our income

in taxes than our receptionists do, or our cleaning ladies, for that matter. If you're in the luckiest 1 per cent of humanity, you owe it to the rest of humanity to think about the other 99 percent." He noted that he was taxed at 17.5% of the \$46 million he made in 2006 while his secretary, who made \$60,000 was taxed at 30 %. How does the top 1% in our country get such a low tax rate? Part of the reason is that capital gains rates are lower to "encourage investment". Because Warren Buffet gets most of his income in the form of capital gains, he pays a lower tax rate than his secretary.

And if the idea of this is to encourage businesses to invest, why are corporations sitting on huge sums of cash made from record profits last year, but still not investing in our country to help create jobs. Corporations have many tax shelters, credits and subsidies. Why don't we go after these tax shelters and make these corporations pay their fair share of the taxes. I wonder how well Best Buy, Target, or Exxon would do if they couldn't rely on the stable, safe country that provides what they need for a prosperous business. What would they do without police if they are robbed, firefighters when there is a fire, FDIC to protect their money, the SEC to protect their investments, roads for their trucks to deliver goods, airspace that allows planes to travel safely and carry their goods and personnel, educated workers to join their company, internet access, a stable government and strong military, and a myriad of other services that they rely on every day. They should be paying their fair share of the taxes that pays for these vital services.

Our budget deficit this year will be close to \$1.3 trillion dollars. This cannot continue year in and year out. But, if individuals and corporations would pay their fair share of the taxes it would cut the deficit by at least \$700 billion. If corporations would invest in our workers and start hiring, our tax revenues would go up. The wars in Iraq and Afghanistan cost over \$200 billion each year. Unfunded Medicare Part D costs \$50 billion a year. Add it up and you will find from where most of our deficit came. But what do our new Republican leaders in Congress want to do? Cut taxes and cut spending. It sure sounds great on the surface. But most economists don't believe we can "cut" our way out of this recession. We must have a **balanced approach** in which we cut wasteful and inefficient programs and also raise revenue. The programs they want to cut are targeted at the most vulnerable in our country, the lower income and elderly. The first round of proposed cuts already does that. First, they want to cut the program to provide subsidies for the poor and elderly for heating fuel this winter (you can bet the well-off won't go cold this winter—unless they chose a skiing vacation!). Other cuts will go to education, and technology and green building. We have been cutting taxes since the early 1980's when Reagan began the theory of "trickle-down" economics, Reaganomics. The theory was that if the wealthy have more money to spend, the benefits of that will "trickle-down" to the rest of us. Well, they have had 30 years to make that happen and it hasn't worked yet. We are still mired in the worst recession since the great depression. The wealthy don't know it; their stocks keep going up. Corporate

executives don't know it; they are sitting on the highest profits in years and making huge bonuses to boot. It is the working person whose wages are lower than they have ever been and the unemployed who are feeling this recession. As Dr. Sach says, "The economic and social consequences of a generation of tax cutting are clear. America is losing its international competitiveness, neglecting its poor—one in five American Children is trapped in poverty—and leaving a mountain of debt to its young." At some point each of us has to be realistic. We must look back at the sacrifices that our parents and grandparents made for us when they paid for the interstate highway system, affordable housing, better schools, and made investments in science and technology. As Bill Gates, Sr. says, Bill, Jr. and I didn't invent the internet, but we used it to make billions of dollars. We owe it to our country to pay the taxes! We must invest in our infrastructure, our schools, and in science and technology. And we can't do this by continuing to cut taxes. We are all citizens of the United States of America and we all owe it to our country to pay the membership dues needed to keep America the best place in the world to live, work, and raise our families.