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# Jeffrey Sachs: The Super Committee's Big Lie

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**T**he big political lie of the Super Committee is that the deficit must be closed mainly by cutting government spending rather than by raising taxes on corporations and the super-rich. Both parties are complicit. The Republicans want to close the deficit entirely by cutting spending; Obama has brandished the formula of \$3 of cuts for every \$1 of tax revenues. On either approach, the poor and middle class would suffer grievously while the rich and powerful would win yet again (at least until the social pressures boil over).

The key to understanding the U.S. economy is to understand that we have two economies, not one. The economy of rich Americans is booming. Salaries are high. Profits are soaring. Luxury brands and upscale restaurants are packed. There is no recession.

The economy of the middle class and poor is in crisis. Poverty and near-poverty are spreading. Unemployment is rampant. Household incomes have been falling sharply. Millions of discouraged workers have dropped out of the labor force entirely. The poor work at minimum wages to provide services for the rich.

There are two forces that account for this deep divide. The first is globalization. Manufacturing employment peaked in 1979, with jobs and factories increasingly shifting overseas. For a while, the housing bubble provided construction jobs that partly offset the loss of manufacturing jobs. Now the housing bubble has burst. Good jobs for young people with a high-school diploma or less have disappeared.

Unless you have a four-year college degree, you're struggling. Yet only one third of young men ages

25 to 29 have a bachelor's degree. Most of the rest are holding on for dear life. Among young Hispanic men, only 11 percent have a bachelor's degree; among young African-American men, the figure is 16 percent. Poor kids can't meet tuition, and they drop out of college in droves. Yet with more cuts in state support for tuition and in federal Pell Grants, the situation is rapidly getting worse.

The second force is politics. When Obama has one of his many \$35,800-a-plate fundraising dinners, he doesn't meet young people struggling to cover tuition payments. Obama has been separated from reality by the White House's campaign to collect between \$750 million and \$1 billion for Obama's reelection bid. The big money on the Republican side is even worse. Big Oil controls the party.

The upshot is that both parties champion the 1 percent, the Republicans gleefully and the Democrats sheepishly. Both parties have worked together to gut the tax code. Companies use accounting tricks approved by the IRS to shift their profits to foreign tax havens. Hedge-fund managers and recipients of long-term capital gains pay only 15 percent top tax rates. As a result of these irresponsible tax policies and rampant tax evasion, tax collections as a share of national income have sunk to 15 percent, the lowest in modern American history.

Americans are told daily that these low tax rates on the rich are the natural order of things, that the American economy would collapse if the top 1 percent were to pay more to help fund education, job training, infrastructure, and new technologies. This claim is absurd. We should be collecting at least 3 to 4 percentage points of GNP more from the rich and the corporate sector. We could collect these

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added amounts by raising top tax rates on regular income and capital gains, closing down offshore tax havens, taxing net worth of high-wealth households, taxing financial transactions, and cracking down on evasion.

The big lie against raising taxes on the rich comes in two variants. The most preposterous is that the U.S. simply could not collect more revenues as a share of GDP. According to some foolish assertions, an iron law of revenues puts the maximum federal tax collection at around 18 percent of GDP! Yet European high-income countries, and Canada, collect somewhere between 5 and 15 percent of GDP more in taxes than the U.S. There is no iron law against raising more revenues.

The second variant of the big lie is that the U.S. economy would be ruined if the U.S. fiscal system were more like those in Europe. Each day, Republicans warn us that if we raise taxes we will end up like Europe, that is, in collapse. Democrats, for their part, go silent, not sure what to make of the argument.

Here's what to make of it: it's plain wrong. Europe per se is not in crisis. Southern Europe is in crisis. Northern Europe, by contrast, where the taxes are higher than in Southern Europe, is vastly outperforming the United States.

Consider three key dimensions of the economic crisis: high unemployment, large budget deficits, and high current account deficits (broadly meaning more imports than exports). To compare how countries are doing, I'll create a simple Misery Index equal to the sum of these three indicators. In 2010, for example, the U.S. had a Misery Index equal to 23.4, the sum of a 9.6 percent unemployment rate, a budget deficit equal to 10.6 percent of GDP, and a foreign (current account) deficit of 3.2 percent of GDP.

When we calculate the Misery Index for the U.S., Canada, and Western Europe, we find that, lo and

behold, the U.S. ranks among the most miserable performers, 5th out of 20 countries. The country with the highest Misery Index is Ireland, followed by Spain, Greece, Portugal, and the United States. All five countries deregulated their financial markets and thereby experienced a housing bubble and bust.

The lowest macroeconomic misery is in Northern Europe. Norway has the lowest score, followed by Switzerland, Luxembourg, Netherlands, Sweden, Germany, and Denmark. All seven countries have lower unemployment rates, smaller budget deficits as a share of GDP, and lower foreign deficits as a share of GDP, than the U.S. We look pretty miserable indeed by comparison.

Yet, miracle of miracles, these seven countries collect higher taxes as a share of GDP than does the U.S. Total government revenues in the U.S. (adding federal, state, and local taxes) totaled 31.6 percent of GDP in 2010. This compares with 56.5, 34.2, 39.5, 45.9, 52.7, 43.4, and 55.3 percent of GDP in Norway, Switzerland, Luxembourg, Netherlands, Sweden, Germany, and Denmark, respectively. These much higher levels of taxation are raised through a combination of personal, corporate, payroll, and value-added taxes.

The Northern European countries earn their prosperity not through low taxation but through high taxation sufficient to pay for government. In five of the seven countries, Denmark, Germany, Norway, Netherlands, and Sweden, government spending as a share of GDP is much higher than in the U.S. These countries enjoy much better public services, better educational outcomes, more gainful employment, higher trade balances, lower poverty, and smaller budget deficits. High-quality government services reach all parts of the society. The U.S., stuck with its politically induced «low-tax trap,» ends up with crummy public services, poor educational outcomes, high and rising poverty, and a huge budget deficit to boot.

http://www.huffingtonpost.com/jeffrey-sachs/the-super-committees-big\_b\_1103700.html

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I'm posting the [data here](#) for everybody to have a look. As the Super Committee threatens this week to gut the government on the basis of a big lie, it's more important than ever that we fight back with systematic data. With truth on our side, the new progressive movement will prevail.

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