An American budget for the rich and powerful

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President Barack Obama’s budget for 2013 will set off a vitriolic battle. Republicans will rail against the Democrats’ “class warfare” and Democrats will rail against the Republicans’ “coddling of the rich”. Yet it is mostly for show. The rich will win in their fund balances while probably losing at November’s presidential polls, and the poor and working class will probably re-elect Obama but suffer a continuing decline in relative and perhaps absolute incomes.

Consider the bottom line of the Obama budget. The policy is to cut total primary (non-interest) federal spending from about 22.6 to 19.3 per cent of gross domestic product from 2011 to 2020, while revenues would rise from recession lows of about 15.4 per cent of GDP in 2011 to some 19.7 by 2020. Compare that with Republican congressman Paul Ryan’s budget a year ago. Mr Ryan’s budget aimed for about 17 per cent of GDP in primary outlays by 2020, with revenues at about 18 per cent of GDP. The difference is modest, but the important fact is this. Both sides are committed to significant cuts in government programmes relative to GDP. These cuts will be especially swingeing in the discretionary programmes for education; environmental protection; child nutrition; job re-training; transition to low-carbon energy; and infrastructure. The entire civilian discretionary budget will amount to only 2 per cent of GDP, or less, as of 2020, in the budget plans of both Obama and the Republicans.

There are far better alternatives for America’s future. Successful northern European countries spend much more as a share of GDP on early childhood development, family support, job training, science and technology, and infrastructure, and they raise higher tax revenues to pay for them. Through a better balance of private and public investments they achieve lower unemployment, lower trade deficits, lower budget deficits, less poverty, longer holidays, better child care, higher life expectancy and higher reported life satisfaction.

The true nature of Washington politics is thinly disguised by the heated political debate between them. Both parties depend on the money of rich corporate contributors from Wall Street, big oil, private healthcare, real estate, arms contractors and other corporate lobbies. Both cater to corporate desires, especially for tax cuts, unregulated executive pay and weak corporate regulation.
It is true that the parties’ economic policies are not identical. Mr Obama proposes to raise the top tax rate slightly from 35 per cent to 39.6 per cent. He advocates a minimum tax rate of 30 per cent on millionaires. These are modest measures and will be blocked by Republicans in Congress. He also resists even larger Republican cuts to programmes for the poor that are already on the chopping block. Yet Mr Obama also dangles the lure of further “tax reforms” to cut top personal and corporate income tax rates.

The plutocratic Republicans rail at Mr Obama’s modest proposals as if small tax increases or continuing small benefit programmes for the poor would end the liberty of America’s “job creators” – to use the Republican sobriquet for the rich. The public knows better. The public will likely back Obama for re-election, yet will earn thin rewards indeed for their successful vote.

Conceptually, US politics fits a modified version of the famous “median-voter theorem”, in which two political parties gravitate to nearly identical platforms to contest elections in the “middle”. In the US version, the parties converge not to the centre of public opinion, but well to the right of centre. They do so because electoral success depends not only on policy positions but also on raising huge campaign funds. Mr Obama has calibrated this well. His core constituencies of poor and working-class voters are the losers for it, though still better off than with a Republican president.

There are very high long-term costs to all this. Main street is in decline, despite the recent optimism over a revival of hiring. One of every two Americans is now in a low-income household. Only about one-third of Americans aged 25-29 have a bachelor’s degree, and the college completion rate falls to a distressing 11 per cent among young Hispanic men. Mr Obama’s policies are slightly more responsive to these realities than the Republican alternatives, but the larger truth is that a shrinking federal government will fail to meet America’s skill, education and infrastructure challenges.

Even as Democrats today praise Mr Obama and Republicans castigate him for his headline proposals to tax the rich, the budget is actually more grim news for America’s poor and working class. The poorer half of the population does not interest the Washington status quo. A third political party, occupying the vast unattended terrain of the true centre and left, will probably be needed to break the stranglehold of big money on American politics and society.

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