Economic Recovery from Below: Notes on the Insufficiency of "Taxing the Rich"

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TAXING THE RICH has a venerable tradition on the left. It is, after all, one of Marx and Engels' ten transitional demands in the *Communist Manifesto*, later to be declared antiquated in their 1872 preface to the document. If this demand appeared to these revolutionaries as dated, it was largely attributable to the fact that this working class proposal had, in principle if not in fact, been largely incorporated, however reluctantly, as a premise of industrial capitalism. For most of the past century, the only question debated was precisely where the bar should be set. If Marx and Engels had once harbored the belief that this demand — particularly in isolation — was transitional to socialism, it had, as they eventually acknowledged, been overtaken by the plasticity of a capitalist reality facing down a dynamic and ever more confident working class movement in the late Victorian era.

This concession, which had arguably attained nearly universal consensus, has now clearly fallen into utter disrepute among capitalist elites. It is discredited in an arena of crisis where the working class is already profoundly demoralized and dispirited, a context whose predicate was set by decades of class defeats. The wealthiest 1 percent had, after all, captured three-fifths of all income gains in the country between 1979 and 2007. Given that, the vehement ruling class opposition to any minimal augmentation of taxes on the wealthy remains all the more remarkable considering how successful they have also been in diluting tax progressivity through loopholes and special exemptions, not the least of which were embodied in the Bush tax cuts.

Liberals and leftists therefore predictably rejoiced at the prospect that the Democrats have raised the demand to tax the rich, oblivious to the profoundly dishonest and disorienting context in which this demand has been hijacked. For the Democrats' purpose is not to reverse the upward distribution of income — as the left might have it — but to render the sale of austerity more palatable. The Democrats have been relatively clear that their intention is not to strengthen a tattered safety net, nor to expand government outlays and employment. It is rather to manage retrenchment, pay down the debt, and convince its working class and impoverished constituencies that these can be done more equitably and at a less reckless speed than that proposed by the viciously reactionary Ryan budget proposals, an approach exploited by the Democrats to misdirect their own constituencies from the politics of austerity. The Statutory Pay as You Go Act that Obama signed into law mandates that any new spending be offset with spending cuts elsewhere or by increased revenues. It effectively precludes an expansionary role government role. When economist Jeffrey Sachs ran the numbers he concluded that Obama would cut federal spending from 22.6 percent of GDP to 19.3 percent by 2020, while Ryan would reduce spending to 17 percent. Sachs went on to conclude that these cuts would be especially severe for discretionary programs in education, environmental protection, child nutrition, job re-training, transitioning 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. Obama is a budget hawk who has repeatedly stated his dedication to "reforming" Social Security and Medicare. And this despite the fact that the "crushing" interest on the national debt amounts to only about 1.4 percent percent of GDP, about as low as it has been in the past 65 years.

The point is that taxing the rich, in the hope of reducing their personal and corporate savings, only makes sense for working class purposes if these revenues are reapplied to sustain and expand public employment and social services. It makes no sense if applied to debt reduction. Yet debt reduction is precisely the purpose and the only purpose that the Democrats have any stated intention of pursuing with these added revenues. So even if the Republicans lose, austerity still prevails.

But don’t such taxes make belt tightening more equitable? Doesn’t this lead to "shared" sacrifices? For the Democratic administration, taxing the rich to hold down the growth of debt simply entails swapping out tax revenues against government securities held by the wealthy. Part of the debt will no longer be rolled over. Its likely effect, in other words, is simply to change the composition of elite portfolios, reducing the holdings of interest-yielding treasuries relative to cash and securities. The Republicans prefer a less circuitous route to the same ends. They opt to dampen debt accumulation directly through a marginally slower growth of federal spending than the Democrats. They favor an expansion of the government spending below its historic pace — something Obama has, in any case, already accomplished though not to the satisfaction of the right. And they favor doing so by shifting the tax burdens towards workers. Both parties would rebalance future spread sheets of the wealthy in favor of cash, but the Republicans would also redistribute resources upwards.

So, while there is clearly an additional loss to the working class if the Republicans prevail, there is still no net gain to the 99 percent should the Democrats implement their alternative program.

We should be clear. This entire debate is waged on a terrain antithetical to socialist purposes. And to the extent that the left is endorsing Democrats because we may superficially share a common demand, we do so under a mistaken premise for utterly dissimilar ends. Reducing government outlays while "taxing the rich" means worker layoffs in the public sector and induced private sector redundancies; a reduction therefore in aggregate working class incomes, and living standards. It is not our purposes that will be served should the Democrats prevail. In partnering with the Democrats we are not only deluding ourselves but also mis-serving the class whose political interests we seek to advance. The effect of "taxing the rich" in the context of a Democratic victory will mean, paradoxically, further unemployment, further upward redistribution of incomes, a further impoverishment of working class living standards, further erosion of savings, but all at a slower pace than the Republican alternative would promote. The Democratic approach signifies the shared sacrifice of a robber who takes your wallet, but leaves your watch.

The entire federal debt problem would, in any event, be entirely manageable no matter what the interest obligations, or the ratio of debt to national income. Debate at this level is, here and abroad, simply nonsense on stilts. Nation states that retain a monopoly on the issuance of their means of appropriation — money — and can pay their foreign obligations in their own currencies are not constrained in their operations by the tax base from which they can potentially tap into or the pool of available funds from which they may borrow. The federal government can expand aggregate demand and finance its debt obligations simply by making an electronic entry into the bank accounts of the private firms it has contracts with and the holders of treasury securities it needs to service. Managing aggregate demand is a matter of political will, not an objectively insurmountable financial firewall. Because the federal government first spends and then by law is obliged to swap treasury bonds on a dollar for dollar basis against all outlays in excess of taxes, deficit spending always places net assets (either dollars or interest bearing treasury bonds) into private hands. The private sector has "lent" — if that term is to have any meaning — exactly nothing to the state, for it is the state which first placed the very monetary resources into the private sector that it later "borrows" back. If anything "debt" issuance on the part of the federal government is another form of welfare for the one percent, since it obliges the government to pay interest on assets exchanged against monies that the state first created.

These bonds are always marketable by the state, and usually at any interest rate that the government selects, precisely because they are always serviced by the self-same government monopoly over money. That is why treasury obligations are a safe harbor for cash, including the excess dollars held by Chinese exporters. For them it represents the wisdom of holding funds in an interest bearing savings account rather than a checking account. The federal government, on the other hand, can no more run out of money than a bridge tournament can run out of points. The rating agencies can downgrade (federal) government debt to "worthless" and these downgrades would have not an iota of impact on the ability of the state to finance its operations. Nor would it disabuse any sensible foreign entity from safely squirreling its dollar surpluses in treasuries. The threats of rating agencies are simply a timely reminder and practical demonstration of precisely how worthless these credit rating entities actually are. These are the same sources of market insight whose collective sagacity was most famously exercised by their idiotic proclamations attesting to the health of collateralized debt obligations and the derivatives wagered on them.

And if the mechanics of state debt financing were all that was all that was in question, the way out of this recession would be clear. The state could presumably spend capitalism out of its slump. But capitalist crises are no more caused by a lack of adequate demand than flat tires are caused by the sudden and forcible loss of air. This is not an insight, but a tautology. Both are the effect of latent structural weaknesses that have become suddenly acute. Inflating a flat tire without patching the hole, and — in the case of capitalism — expanding aggregate demand without restoring conditions of profitability only allow the vehicles in question to sputter along indecisively and unpredictably, from bubble to bubble as it were.

The system can set itself aright only by purging the excess claims on profit and by expanding that portion of the collective working day appropriated by capital. Assets acquired through leverage, whether by corporations or by individual households (real estate), have to be serviced at their purchase price regardless of their current worth. Debt embodied in productive capacity that is no longer generating adequate profit has to be paid down; mortgages that exceed current sales prices still have to be paid off. Until this overhang of deficient profit-inducing business debt is purged and deflated assets sold off to those who can make profitable use of them at newly discounted prices, the system as a whole cannot restructure and revive itself. Until consumer debt is made manageable and savings restored, working class spending cannot be revived.

Because spending equals income in the next round, any leakages from spending (net savings) leads to a downward spiral of incomes. If these leakages are not offset by sufficient government dissavings (deficits), the savings plans of business and workers cannot both be fully satisfied. Eventually incomes must fall beneath the point in which private net savings are still possible. The inadequacy of state spending has already effectively wiped out the savings of the working class and a huge swath of non-corporate business. If the state should actually pull the rug from under the system by drastically reducing not merely the rate of growth of its spending but the absolute level of its outlays, as tea partyers propose, the level of business and personal bankruptcies would avalanche into a full scale 1930s contraction.

On the other hand, any robust program of government spending would delay the restructuring process. It would restore tight labor markets that break down industrial discipline. It would lay the predicate for "excessive" wage demands and mass union recruitment drives. It would threaten profitability from below. State spending can bend the shape of the downturn, but it cannot secure and uphold the general conditions of capital accumulation. It is for this reason that state spending holds little attraction to ruling class elites.

Equally crucial is this. Any growth in state spending adequate to induce full capacity utilization, would also sabotage capitalist restructuring at the other end. It would pump up asset prices without patching the profitability hole. The wave of bankruptcies, buyouts and reorganizations needed to reshape the capitalist anatomy would be aborted. The absolute mass of profits realized, it is true, might well expand to or even beyond their pre-recession levels. But so too would the underlying asset prices in the face of rising demand. And, insofar as the relationship between capital and profits was already precarious, the system would arise from its wreckage no stronger than when it collapsed.

And perhaps, in a larger sense, considerably weaker. For much of the additional output coaxed out of the system by state spending would be absorbed by state services. That slice of output would, in other words, lose its capitalist character. The expansion of the market would be ever more separated from the process of capital accumulation. Because capitalism, left to its own devices, can sustain an adequate level of profits only by ramping up the rate at which surplus value is capitalized, state spending would induce a tradeoff between maximizing the use of existing capacity against expanding the mass of its productive apparatus. There would, to put it otherwise, be a more intensive use of current plant and equipment, but at the cost of smaller net additions to the value of the capital stock. Without the type of fundamental shakeout that only the market itself can perform, a revival based on state expansion would subordinate capital to the state by weakening the links that connect profit realization to capital formation.

It is doubtful that capital perceives this threat directly in such terms. Rather, big business simply sees the crisis as a unique — once in a generation — opportunity to massively and suddenly re-concentrate and centralize existing property relations. It sees the crisis as the moment for an internal shock therapy; a massive purge of the weakest components in the market place that, under normal business conditions, might otherwise be the work of decades. And it is eager to seize this opportunity to wipe out the last remaining vestiges of organized working class power and resistance. This is seen as a grand opportunity, if managed "purposefully," to restore American capitalist preeminence on the world market. All competing national elites have fallen in line, with the same barbaric consequences, for fear that failure to do so would leave them at competitive disadvantage once the crisis is resolved.

THE GROWING FINANCIALIZATION OF capitalism, the tendency to appropriate through rent seeking, rather than through actual investment in production — both a symptom and a cause of the underlying profit-generating weakness of capitalism—lends added ruling class urgency to its drive for public austerity. Because financial activity is no longer aligned to manufacturing, the financial sector tends to expand claims to surplus value without adding to the very apparatus that generates surplus-value. That is, finance no longer channels savings largely back into the production process. It directs savings into financial innovations such as mutual funds, derivatives, credit default swaps, collateralized debt obligations, etc. Subsequently, the financial sector does not exact a surcharge from the growing pool of surplus value whose enlargement it might have otherwise contributed to. Rather it strips incomes from wages through credit gouging; from the industrial sector by exacting monopoly rents on real estate and commodity inputs; and from the local public sphere through asset stripping and privatization. All other employers are in turn forced to defend their position by squeezing wages and benefits and by seeking tax relief, while private sector workers, for whom exploitation is not an option, can defend their positions only by tax remediation. Wage cuts and profit squeezes from on high cause ever-greater dependency on credit. Demand and profit margins supported by credit are unsustainable without an ever-expanding productive base.

An expanding economic base is ever more imperiled by the siphoning of profits to the financial sector. The cascading form of upwards redistribution creates an unbroken loop. It sweeps all private sector components against the public sphere and those inordinately dependent on the public sector while enhancing the vulnerability of the public sphere to the financial wolf pack.

It should therefore be patently obvious why the tea-party guppies, including swaths of the white working class, are susceptible to recruitment to the viewpoint of the Koch-brother sharks and Wall Street jobbers. The fear is drilled into them that massive government outlays today correspond to crippling taxes tomorrow. Ideological prisoners of that cracker barrel wisdom that sees the logic of government finances in terms of the individual household, the public is relentlessly inculcated into seeing state "profligacy" as a form of national dissaving. Just as overextended businesses and households must tighten their belts, so too — it is argued — must the federal state. Otherwise, "we" face a disaster akin to the Greeks or the Spanish.

But this seemingly commonsensical alibi for austerity gets the economics of the problem utterly inverted and warped. The imminent victims of this debacle are feted by the call to restrict state demand as if this serves their immediate benefit and that of future generations. Fearing having their pockets picked by the state and redistributed to the undeserving below, they are blinded by their own market idolatry from seeing how the actual forces of competition are realigned to squeeze them from above. The result is that huge swaths of the exploited, that might otherwise wish to see a government that addresses fundamental social needs and economic inequities, have been demoralized by the belief that the state lacks the financial wherewithal to do so. They simply see in a state that taxes their diminished incomes as one throwing good money after bad. A state unable and unwilling to be useful to the working class may as well be as small as possible. It is this understanding that cements the appeal of right wing populism, an appeal built directly upon the material structure of the current crisis.

And the unfortunate truth is that Obama and the Democrats, the second party of capitalist austerity, have done precious little to offer a counter narrative needed to disabuse them of these dismal expectations.

The left has no electoral alternative to offer. What it can present is a realistic program for resistance; demands that neither transcend capitalism nor oblige socialists to take responsibility for capitalism, but nevertheless offer an actionable basis for shifting the burden of the crisis back to the ruling class.

But traditional calls to "nationalize the banks" that are the stock and trade of the socialist left rest on multiple, anachronistic misconceptions. Historically this demand arose in a period in which industrial capital, specifically in Germany at the turn of the 20th Century but to lesser degrees elsewhere, was controlled by the private banking system. A socialist government that could nationalize finance capital would have in one fell swoop also annexed large swathes of the productive apparatus of society. This demand also rested on the specific historic limitations of a means of circulation backed by tangible commodities (gold and silver). To nationalize the banks was to seize the national hoard of metal so that the socialist state could finance its economic operations and suppress other, alien, forms of accumulation and social activity, such as equipping and paying counterrevolutionary armies.

Finance capital today does not so much control industrial capital as it restrains and pillages manufacturing by diverting resources from the accumulation process. And the state has long severed the connection between money and metal. It enforces the acceptance of fiat money as a means of circulation — and therefore as a measure of value and store of wealth — by the demand that taxes be paid in this form and in no other near monies or forms of wealth.

More important, the call to nationalize banks was a revolutionary demand made by credible political agents. This is precisely what American socialists today are not. A capitalist state that answered that call would most likely hold failing banks in receivership until such time as they could be profitably transferred back to private investors. At best, state ownership of commercial banks would prevent banks from jeopardizing depositor monies through speculative activity. Socialists raising the call to "nationalize" the banks are in effect taking responsibility for depositors and are seeking to confine, to some small extent, access by finance capital to other gambling resources. While this demand may have radical roots, this elimination of "moral hazard" is small-bore progressive politics, not a platform for class struggle. Above all — and painful as it might sound to socialist ears — the assets of bank investors are in themselves insufficient for the scale of intervention needed to reshape the economic reversal.

Taxing the rich has to be placed in a proper context. Socialists favor confiscatory levies on wealth and income derived from property ownership for two essential reasons: to sanitize the political process against the influence of capital and to reshape economic priorities, to the extent that markets remain a tool in the allocation of resources, commensurate with social needs rather than elite priorities. But these are on both counts the work of socialism in power.

Socialists who make this the centerpiece of their demands on the capitalist state undoubtedly understand that this is not fully actionable under the present organization of society. They may well believe that the slogan nevertheless serves a worthy heuristic purpose. It foreshadows our vision of an egalitarian, humane, and fully democratic social order. But it also does something else entirely. It suggests that social entitlements are fundamentally conditioned not by the productive capacity of society, but by the extent that capitalist liquidity can be clawed back to "finance" such programs. Reactionaries have always had a field day calculating the precise date that any given society marches off the fiscal cliff once their wealth has been squeezed dry or effectively redistributed. Socialists indulge this by linking the state’s ability to access productive capacity with the existence of a pool of untaxed and therefore untapped financial wealth. Without offering an effective counter-narrative, the left participates in this sociological misdirection. It requires a rebuttal. There is always a liberal argument for social cohesion based on a more egalitarian capitalist society, and taxing the rich plays an obvious role here. But that proposition is best left to progressives. It is not our case and it is not our rebuttal. And it serves no enduring purpose to argue that the present rate of taxes on the wealthy is at a historically low point or that state borrowing costs are currently negligible. These are entirely beside the point because they are of a piece with the wholly errant dominant social narrative.

What socialists should emphasize is that the ability of the capitalist state to decommoditize vast swathes of the social surplus relies in the first instance on its monopoly in creating purchasing power ex nihilo, not on its ability to tax and borrow. The ultimate need to tax has nothing to do with financing such programs at the federal level. Taxing is required to carve out space for the appropriation of additional capacity to meet social needs and to cool inflationary pressures as they arise. Progressive taxation is about suppression of elite demand, preventing competition from above for goods and services and the concomitant diversion of resources to accommodate elite demands that this would otherwise entail. It is not about how the state finances its purchases. Demand management with a growing public sector comes invariably at the expense of the ruling class. It can and should be made a cost of doing business.

It is on the basis of the outline above that a program for struggle can be consistently waged on an analytically coherent basis. The capitalist state has within its present capacity the ability to offer public sector employment on demand and a guaranteed minimum level of income support for those who need to retrain, relocate, or retire or who are unable — or unwilling (think worker burnout with a universal sabbatical model) — to work for any reason. Public sector employment is generally labor intensive and public services are generally green jobs. Because public sector employment primarily takes place at the state and local level, where governments cannot issue their own currency, the insane competition of cutting corporate taxes to attract business cannot be permitted to continue as a slide into austerity. The states and municipalities should be relieved entirely by the federal government of their need to tax. Their financial obligations should be replaced by revenue sharing supplemented federal taxes on wealth and property that are returned to the states as a part of such revenues. Without this fiscal restraint, local governments can democratically determine their own needs fully supported by a federal government.

Finally, we should demand a quantitative easing from below. If the Federal Reserve can purchase mortgage backed securities and place them on its balance sheets, it can also distribute vouchers to workers and students that can be swapped against debt accrued through educational loans, mortgages, and credit card purchases. There is no difference in principle, except this. Quantitative easing from below does not depend on the creation of a wealth effect. A rising stock market is not needed to reassure consumers that they can dampen their rate of savings and still meet retirement and contingency targets. Instead, it immediately and directly frees income from debt service to augment aggregate demand and buoy employment.

The point is that the effective management of aggregate demand is within the grasp of the capitalist state. An ideological barrage has been unleashed to deny this and the left has largely fallen sway to that narrative. Socialists may capitulate to it because it reinforces our understanding that there is no alternative beyond the fundamental overhaul of class relationships. But this would be a tactical mistake. The emerging "austerity state" is the means by which capitalism seeks to resolve its profitability crisis at the expense of workers. We can offer a convincing counter narrative demonstrating how capital, within the limits of its own social structure, can be made to pay for its own crisis.

Footnotes