

Cost/Revenue Neutral Economic Stimulus: What is Wrong with the Current Bailout and What We Need to Do Instead

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Forums for a Future Podcast ²

Last March, about the time of the Bear-Stearns financial crisis, I found my car with a flat tire. I inflated the tire and drove to the garage to have it repaired.

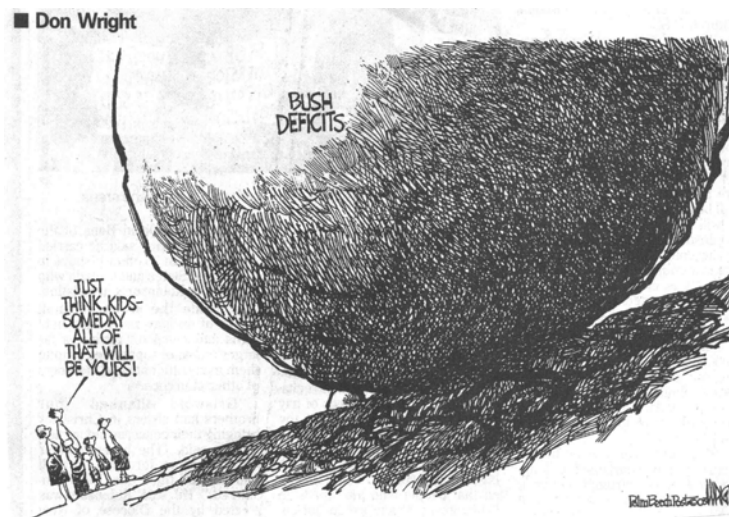
It never occurred to me to keep re-inflating tire every time I wanted to use my car, rather than repair the leak.

About the same time our economy had a flat. Ever since then I have had the uncomfortable feeling we are trying to re-inflate it with money rather than fix the leak.

Our response has been based on a superficial analysis, using concepts such as “Wall Street greed,” that imply a failure of ethics and personal responsibility requiring only mechanical solutions: Limit the capacity of others to behave in a similar way in the future, and pump some money into the system.

My tire had a structural flaw, just like our country’s economy. Neither are going to go very far on either or air or money. The solution is to fix the structural problem, as fast as possible.

I don’t know why I got a flat tire. But, I do know, that as a country and as individuals, we have been spending money we did not have, and now we are flat broke.



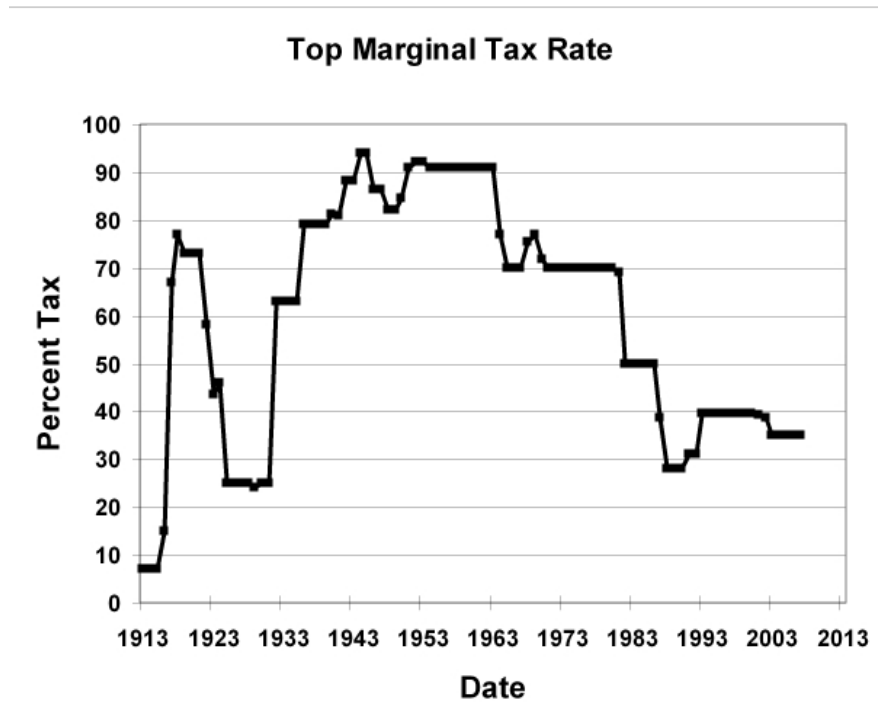
The Federal Deficit was \$5.7 trillion eight years ago; it is now \$10.7 trillion. The 2009 fiscal budget deficit was projected to be over \$400 billion by the Office of Management and Budget *before* the \$1.5 trillion economic stimulus and rescue package. ³

But, how can we stimulate the economy and inject fresh capital into the banking system without increasing the kinds of bad debt that caused the problem in the first place? It is the structural problem that needs to be fixed.

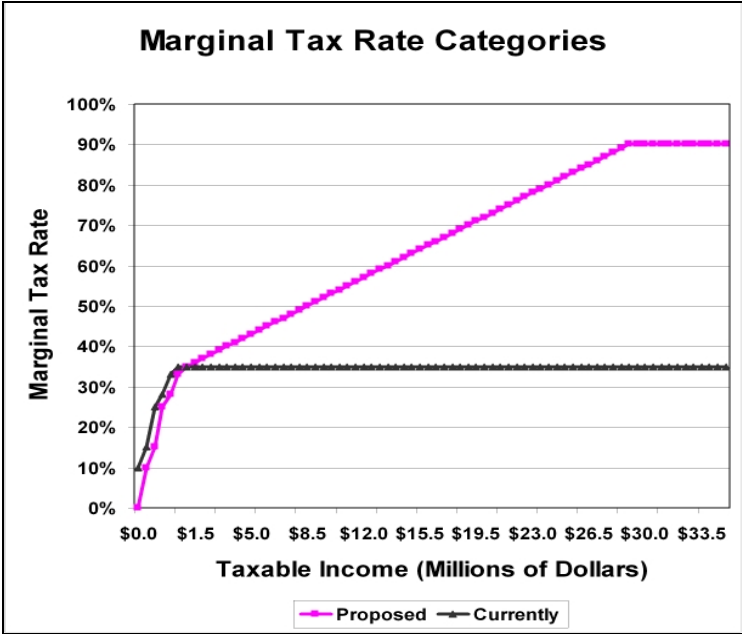
One structural answer is a Revenue Neutral Tax Cut Stimulus.

Revoke the Bush tax cuts for the rich, but give the dollar amount back to the public in a more effective form. Divide the total amount by the population, and add that amount to the per-person deduction allowed on our income tax form. This immediately reduces the withholding tax on every paycheck. It is additional money that will be immediately spent by the 90% of the American people who are struggling. It is fair, because everyone is treated equally; we all get the same larger deduction, starting at the bottom line. It makes no sense that we now collect 10% income tax from a family of four with a net taxable income of less than \$16,700.

A second structural answer is to address the steady decline over the past 40 years in the level of the maximum marginal tax rate.

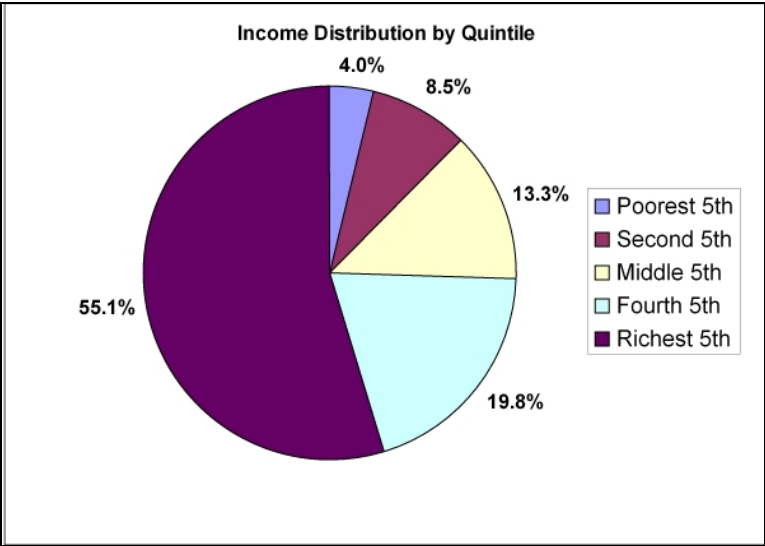


Currently, after reaching a ceiling of \$370,000, no one pays more than 35% tax on each additional increment of taxable income. We could lift the ceiling, so that, for example, on every addition \$500,000 of income there would be a 1% increase in the tax rate. If we set the ceiling for the maximum marginal rate at the same level that existed in the US from World War II to the Great Society, in 1964, we would generate sufficient new revenue to pay for the massive spending on the new technologies required to become energy self-sufficient, while helping to stimulate the economy and to create new jobs, but without increasing the Federal Debt or the Budget Deficit.



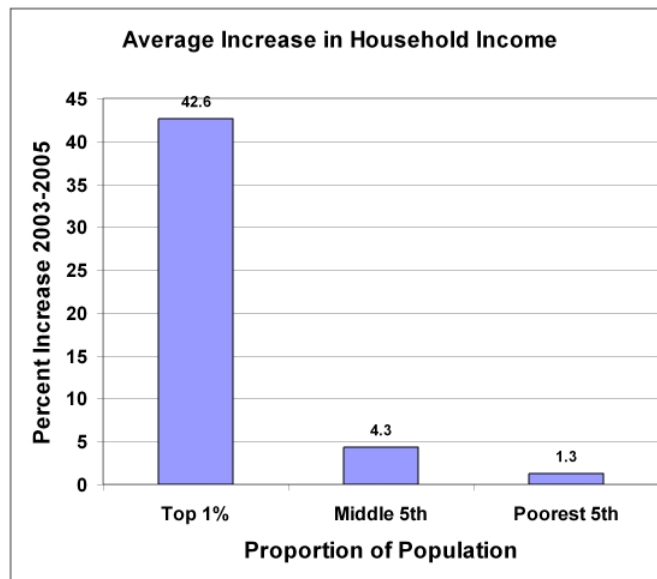
This is not a radical proposal.

As a country, this is exactly what we did to pay for World War II, to rebuild the World economy with the Marshall Plan after the war, and to flirt, briefly in 1964, with creating the Great Society, before abandoning the effort in 1968. That was the turning point when we embarked on a 40-year path of changes in the tax structure and in government regulations that has produced greater and greater wealth and income disparity. The level of inequality has now grown to the point where:



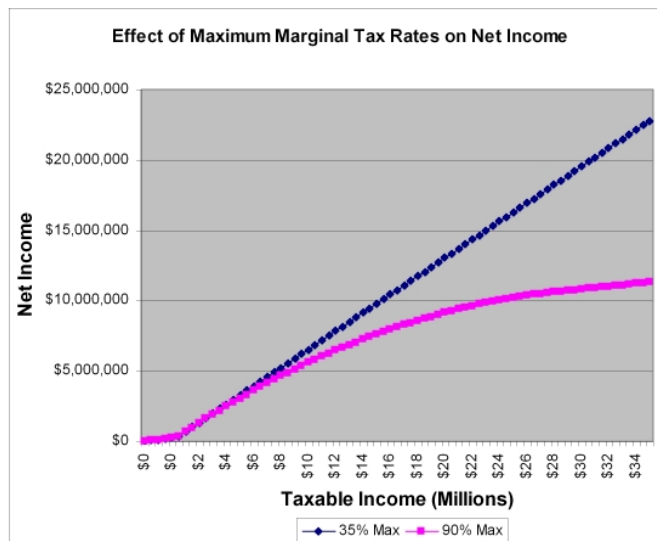
- 16 million American now live in severe poverty (a family of four on less than \$9,903)
- The income of the top 1% is greater than the total income of the bottom 50% of Americans
- The *increase* over 2 years in the income of the top 1%, exceed the *total* income of the poorest 20%

These are the most recent statistics *before* the economic meltdown of 2008. ⁴



What is radical is the extent to which we have lost sight of what is fair and equitable.

With an increase in the marginal tax rate of only 1% for every additional \$500,000 of income, a return to the historical higher marginal tax rate of 90% would only be applied to annual income that was greater than \$28,000,000. Even at that rate, the individual would get to keep \$100,000 for themselves out of each additional \$1 million dollars earned.



That was, from WWII to the end of the Great Society, and surely is now, sufficient incentive to sustain capitalist innovation and motivation.

It is certainly still very far from socialism.

The third, and final, structural answer is to apply the existing regulatory structure already in place through the FDIC for handling failing financial institutions, and to restore stricter oversight to keep the system solid.

The result from these three structural repairs will be an end to the excesses of wealth that have corrupted our political process and created an unsustainable level of consumption. It will give ordinary people jobs, keep them in their houses, restore world social, economic and political leadership to our country, and defeat terrorism the only way it can be defeated -- through greater shared economic prosperity and the resulting more stable political world order.

Continually re-inflating my tire was not a solution, and neither is inflating the economy by printing money. Fix the flat so we can move forward. That is the change we have all been waiting for.

Notes

1. Professor Renner may be reached at erenner@cas.usf.edu. The podcast series is also available through the University of South Florida at:
https://my.usf.edu/webapps/lobj-podcast-bb_bb60/feed/IDH3400.004S09/podcast.xml
2. This essay is based on an audio and video podcast by Professor Renner entitled "**Forums for a Future**". Text, audio and video copies of the material may be accessed from his website at www.kerenner.com. The direct link for subscribing to the video series from iTunes is:
<http://phobos.apple.com/WebObjects/MZStore.woa/wa/viewPodcast?id=289289719>
3. The budget and deficit information is from the Office of Management and Budget of the White House. It is the most current information from the Budget of the United States Government, Fiscal Year 2009, Historical Tables, Tables 1.1 and 1.3.
4. The income distribution information is from the Congressional Office of the Budget. It is the most recent information available from the December 23, 2008 supplement to the Historical Effective Tax Rates, 1979 to 2005. The data for the two-year time interval is for the period 2003-2005