

## **RULING ON BEHALF OF WALL STREET’S “SUPER RICH:” THE FINANCIAL END TIME HAS ARRIVED<sup>1</sup>**

**Michael Hudson©**

Now that President Obama is almost celebrating his bipartisan willingness to renew the tax cuts for the super-rich enacted under George Bush ten years ago, it is time for Democrats to ask themselves how strongly they are willing to oppose an administration that looks like Bush-Cheney III. Is this what they expected by Mr. Obama’s promise to rise above partisan politics – by ruling on behalf of Wall Street, now that it is the major campaign backer of both parties? It is a reflection of how one-sided today’s class war has become that Warren Buffet has quipped that “his” side is winning without a real fight being waged. No gauntlet has been thrown down over the trial balloon that the president and his advisor David Axelrod have sent up over the past two weeks to extend the Bush tax cuts for the wealthiest 2% for “just” two more years. For all practical purposes the euphemism “two years” means forever – at least, long enough to let the super-rich siphon off enough more money to bankroll enough more Republicans to be elected to make the tax cuts permanent.

Mr. Obama seems to be campaigning for his own defeat! Thanks largely to the \$13 trillion Wall Street bailout – while keeping the debt overhead in place for America’s “bottom 98%” – this happy 2% of the population now receives an estimated three quarters (~75%) of the returns to wealth (interest, dividends, rent and capital gains). This is nearly double what it received a generation ago. The rest of the population is being squeezed, and foreclosures are rising. Charles Baudelaire quipped that the devil wins at the point where he manages to convince the world that he doesn’t exist. Today’s financial elites will win the class war at the point where voters believe it doesn’t exist – and believe that Mr. Obama is trying to help them rather than shepherd them into debt peonage as the economy settles into debt deflation.

We are dealing with shameless demagogy. The financial End Time has arrived, but Mr. Obama’s happy-talk pretends that “two years” will get us through the current debt-induced depression. The Republican plan is to make more Congressional and Senate gains in 2012 as Mr. Obama’s former supporters “vote with their backsides” and stay home, as they did earlier this month. So “two years” means forever in politician-talk. Why vote for a politician who promises “change” but is merely an exclamation mark for the Bush-Cheney policies from Afghanistan and Iraq to Wall Street’s Democratic Leadership Council on the party’s right wing? One of its leaders, after all, was Mr. Obama’s Senate mentor, Joe Lieberman.

The second pretense is that cutting taxes for the super-rich is necessary to win Republican support for including the middle class in the tax cuts. It is as if the Democrats never won a plurality in Congress. (One remembers George W. Bush with his mere 50+%, pushing forward his extremist policies on the logic that: “I’ve got capital, and I’m using it.” What he had, of course, was Democratic Leadership Committee support.) The pretense is “to create jobs,” evidently to be headed by employment of shipyard workers to build yachts for the nouveau riches and sheriff’s deputies to foreclose on the ten million Americans whose mortgage payments have fallen into arrears. It sounds Keynesian, but is more reminiscent of Thomas Robert Malthus’s lugubrious claim (speaking for Britain’s landed aristocracy) that landlords would keep the economy going by using their rental income (to be protected by high agricultural

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<sup>1</sup> Global Research, November 16, 2010, URL: [www.globalresearch.ca/index.php?context=va&aid=21947](http://www.globalresearch.ca/index.php?context=va&aid=21947)

tariffs) to hire footmen and butlers, tailors and carriage-makers.

It gets worse. Mr. Obama's "Bush" tax cut is only Part I of a one-two punch to shift taxes onto wage earners. Congressional economists estimate that extending the tax cuts to the top 2% will cost \$700 to \$750 billion over the next decade or so. "How are we going to go out and borrow \$700 billion?" Mr. Obama asked Steve Croft on his Sixty Minutes interview on CBS last week. It was a rhetorical question. The President has appointed a bipartisan commission (right-wingers on both sides of the aisle) to "cure" the federal budget deficit by cutting back social spending – to pay yet more bailouts to the economy's financial wreckers. The National Commission on Fiscal Responsibility and Reform might better be called the New Class War Commission to Scale Back Social Security and Medicare Payments to Labor in Order to Leave more Tax Revenue Available to Give Away to the Super-Rich. A longer title than the Deficit-Reduction Commission used by media friendlies, but sometimes it takes more words to get to the heart of matters.

The political axiom at work is "Big fish eat little fish." There's not enough tax money to continue swelling the fortunes of the super-rich pretending to save enough to pay the pensions and related social support that North American and European employees have been promised. Something must give – and the rich have shown themselves sufficiently foresighted to seize the initiative. For a preview of what's in line for the United States, watch neoliberal Europe's fight against the middle and working class in Greece, Ireland and Latvia; or better yet, Pinochet's Chile, whose privatized Social Security accounts were quickly wiped out in the late 1970s by the kleptocracy advised by the Chicago Boys, to whose monetarist double-think Mr. Obama's appointee Ben Bernanke has just re-pledged his loyalty.

What is needed to put Mr. Obama's sell-out in perspective is the pro-Wall Street advisors he has chosen – not only Larry Summers, Tim Geithner and Ben Bernanke (who last week reaffirmed his loyalty to Milton Friedman's Chicago School monetarism), but by stacking his Deficit Reduction Commission with outspoken advocates of cutting back Social Security, Medicare and other social spending. Their ploy is to frighten the public with a nightmare of \$1 trillion deficit to pay retirement income over the next half century – as if the Treasury and Fed have not just given Wall Street \$13 trillion in bailouts without blinking an eye. President Obama's \$750 billion tax giveaway to the wealthiest 2% is mere icing on the cake that the rich will be eating when the bread lines get too long.

To put matters in perspective, bear in mind that interest on the public debt (that Reagan-Bush quadrupled and Bush-Obama redoubled) soon will amount to \$1 trillion annually. This is tribute levied on labor – increasing the economy's cost of living and doing business – paid for losing the fight for economic reform and replacing progressive taxation with regressive neoliberal tax policy. As for military spending in the Near East, Asia and other regions responsible for much of the U.S. balance-of-payments deficit, Congress will always rise to the occasion and defer to whatever foreign threat is conjured up requiring new armed force.

It's all junk economics. Running a budget deficit is how modern governments inject the credit and purchasing power needed by economies to grow. When governments run surpluses, as they did under Bill Clinton (1993-2000), credit must be created by banks. And the problem with bank credit is that most is lent, at interest, against collateral already in place. The effect is to inflate real estate and stock market prices. This creates capital gains – which the "original" 1913 U.S. income tax treated as normal income, but which today are taxed at only 15% (when they are collected at all, which is rarely in the case of commercial real estate). So today's tax system subsidizes the inflation of debt-leveraged financial and real estate bubbles.

The giveaway: the Commission's position on tax deductibility for mortgage interest. The Obama "Regressive Tax" commission spills the beans with its proposal to remove the tax subsidy for high housing prices financed by mortgage debt. The proposal moves only against homeowners – "the middle class" – not absentee owners, commercial real estate investors, corporate raiders or other prime bank customers. The IRS permits mortgage interest to be tax-deductible on the pretense that it is a necessary cost of doing business. In reality it is a subsidy for debt leveraging. This tax bias for debt rather than equity investment (using one's own money) is largely responsible for loading down the U.S. economy with debt. It encourages corporate raiding with junk bonds, thereby adding interest to the cost of doing business. This subsidy for debt leveraging also is the government's largest giveaway to the banks, while causing the debt deflation that is locking the economy into depression – violating every precept of the classical drive for "free markets" in the 19th-century. (A "free market" meant freedom from extractive rentier income, leading toward what Keynes gently called "euthanasia of the rentier." The Obama Commission endows rentiers atop the economy with a tax system to bolster their power, not check it – while shrinking the economy below them.)

Table 7.11 of the National Income and Product Accounts (NIPA) reports that total monetary interest paid in the U.S. economy amounted to \$3,240 billion in 2009. Homeowners paid just under a sixth of this amount (\$572 billion) on the homes they occupied. Mr. Obama's commission estimates that removing the tax credit on this interest would yield the Treasury \$131 billion in 2012.

There is in fact a good logic for stopping this tax credit. The mortgage-interest tax deduction does not really save homeowners money. It is a shortsighted illusion. What the government gives to "the homeowner" on one hand is passed on to the mortgage banker by "the market" process that leads bidders for property to pledge the net available rental value to the banks in order to obtain a loan to buy the home (or an office building, or an entire industrial company, for that matter.) "Equilibrium" is achieved at the point where whatever rental value the tax collector relinquishes becomes available to be capitalized into bank loans. This means that what appears at first as "helping homeowner" afford to pay mortgages turns out merely to enable them to afford to pay more interest to their bankers. The tax giveaway uses homebuyers as "throughputs" to transfer tax favoritism to the banks.

It gets worse. By removing the traditional tax on real estate, state, local and federal governments need to tax labor and industry more, by transforming the property tax onto income and sales taxes. For banks, this is transmuting tax revenue into gold – into interest. And as for the home-owning middle class, it now has to pay the former property tax to the banker as interest, and also to pay the new taxes on income and sales that are levied to make up for the tax shift. I support removing the tax favoritism for debt leveraging. The problem with the Deficit Commission is that it does not extend this reform to the rest of the economy – to the commercial real estate sector, and to the corporate sector.

The argument is made that "The rich create jobs." After all, somebody has to build the yachts. What is missing is the more general principle: Wealth and income inequality destroy job creation. This is because beyond the wealthy soon reach a limit on how much they can consume. They spend their money buying financial securities – mainly bonds, which end up indebting the economy. And the debt overhead is what is pushing today's economy into deepening depression. Since the 1980s, corporate raiders have borrowed high-interest "junk bond" credit to take over companies and make money by stripping assets, cutting back long-term investment, research and development, and paying out depreciation credit to their financiers. Financially parasitized companies use corporate income to buy back their stock to support its price – and hence, the

value of stock options that financial managers give themselves – and borrow yet more money for stock buybacks or simply to pay out as dividends. When the process has run its course, they threaten their work force with bankruptcy that will wipe out its pension benefits if employees do not agree to “downsize” their claims and replace defined-benefit plans with defined-contribution plans (in which all that employees know is how much they pay in each month, not what they will get in the end). By the time this point has been reached, the financial managers have paid themselves outsized salaries and bonuses, and cashed in their stock options – all subsidized by the government’s favorable tax treatment of debt leveraging.

The attempted raids on McDonalds and other companies in recent years provide object lessons in this destructive financial policy of “shareholder activists.” Yet Mr. Obama’s Deficit Reduction Commission is restricting its removal of tax favoritism for debt leveraging only for middle class homeowners, not for the financial sector across the board. What makes this particularly absurd is that two thirds of homeowners do not even itemize their deductions. The fiscal loss resulting from tax deductibility of interest stems mainly from commercial investors.

If the argument is correct (and I think it is) that permitting interest to be tax deductible merely “frees” more revenue to pay interest to banks – to capitalize into yet higher loans – then why isn’t this principle even more applicable to the Donald Trumps and other absentee owners who seek always to use “other peoples’ money” rather than their own? In practice, the “money” turns out to be bank credit whose cost to the banks is now under 1%. The financial-fiscal system is siphoning off rental value from commercial real estate investment, increasing the price of rental properties, commercial real estate, and indeed, industry and agriculture.

Alas, the Obama administration has backed the Geithner-Bernanke policy that “the economy” cannot recover without saving the debt overhead. The reality is that it is the debt overhead that is destroying the economy. So we are dealing with the irreconcilable fact that the Obama position threatens to lower living standards from 10% to 20% over the coming few years – making the United States look more like Greece, Ireland and Latvia than what was promised in the last presidential election.

Something has to give politically if the economy is to change course. More to the point, what has to give is favoritism for Wall Street at the expense of the economy at large. What has made the U.S. economy uncompetitive is primarily the degree to which debt service has been built into the cost of living and doing business. Post-classical “junk economics” treats interest and fees as payment for the “service” for providing credit. But interest (like economic rent and monopoly price extraction) is a transfer payment to bankers with the privilege of credit creation. The beneficiaries of providing tax favoritism for debt are the super-rich at the top of the economic pyramid – the 2% whom Mr. Obama’s tax giveaway will benefit by over \$700 billion.

If the present direction of tax “reform” is not reversed, Mr. Obama will shed crocodile tears for the middle class as he sponsors the Deficit Reduction Commission’s program of cutting back Social Security and revenue sharing to save states and cities from defaulting on their pensions. One third of U.S. real estate already is reported to have sunk into negative equity, squeezing state and local tax collection, forcing a choice to be made between bankruptcy, debt default, or shifting the losses onto the shoulders of labor, off those of the wealthy creditor layer of the economy responsible for loading it down with debt.

Critics of the Obama-Bush agenda recall how America’s Gilded Age of the late 19th century was an era of economic polarization and class war. At that time the Democratic leader William Jennings Bryan accused Wall Street and Eastern creditors of crucifying the American economy

on a cross of gold. Restoration of gold at its pre-Civil War price led to a financial war in the form of debt deflation as falling prices and incomes received by farmers and wage labor made the burden of paying their mortgage debts heavier. The Income Tax law of 1913 sought to rectify this by only falling on the wealthiest 1% of the population – the only ones obliged to file tax returns. Capital gains were taxed at normal rates. Most of the tax burden therefore fell on finance, insurance and real estate (FIRE) sector.

The vested interests have spent a century fighting back. They now see victory within reach, by perpetuating the Bush tax cuts for the wealthiest 2%, phasing out of the estate tax on wealth, the tax shift off property onto labor income and consumer sales, and slashing public spending on anything except more bailouts and subsidies for the emerging financial oligarchy that has become Mr. Obama's "bipartisan" constituency.

What we need is a Futures Commission to forecast just what will the rich do with the victory they have won. As administered by President Obama and his designated appointees Tim Geithner and Ben Bernanke, their policy is financially and fiscally unsustainable. Providing tax incentives for debt leveraging – for most of the population to go into debt to the rich, whose taxes are all but abolished – is shrinking the economy. This will lead to even deeper financial crises, employer defaults and fiscal insolvency at the state, local and federal levels. Future presidents will call for new bailouts, using a strategy much like going to military war. A financial war requires an emergency to rush through Congress, as occurred in 2008-09. Mr. Obama's appointees are turning the U.S. economy into a Permanent Emergency, a Perpetual Ponzi Scheme requiring injections of more and more Quantitative Easing to rescue "the economy" (Mr. Obama's euphemism for creditors at the top of the economic pyramid) from being pushed into insolvency. Mr. Bernanke's helicopter flies only over Wall Street. It does not drop monetary relief on the population at large.