

Social Policy as If People Matter  
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The Social Ethic Underlying Twenty-Five Years of Tax Cut Policy in the United States:  
Consumer Sovereignty vs. Caring Citizenship

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Introduction

For twenty-five years, tax cutting has served as the cornerstone of conservative social policy. Much has been written about the economics and politics of tax-cutting—how it targets its benefits to the wealthy and lowers the ceiling on federal spending while pulling middle income voters into the Republican orbit. These effects are critically important, but they have also been discussed widely. By contrast, the social ethic underlying tax cuts has largely escaped public notice. But what is the social vision that lies behind tax cut policy? What is the source of its appeal? And for those of us interested in promoting a less reluctant welfare state, how might we go about articulating a different social vision? This paper seeks to answer those questions.

Before we venture into this uncharted territory, let's begin by briefly reviewing some of the established facts about the economics and politics of tax cutting.

The Economics of Tax Cutting

The Bush Administration has always defended its tax cuts by speaking in averages. They assert that if the 2004 tax cuts cost \$276 billion, the value of the benefit should be determined by dividing this equally among all American taxpaying households. But, of course, neither this sum, nor the \$618 billion cost of the tax cut between 2001 and 2004 has been distributed equally.<sup>1</sup> Instead, as the nonpartisan Congressional Budget

Office found in its analysis, one-third of the tax cuts benefits have gone to the top one percent of households who earned an average of \$1.2 million annually.<sup>2</sup>

Confronted with this argument, the fallback position of Bush administration has been to posit a hypothetical family with precisely those characteristics that enable it to cherry-pick the three “middle-class” tax provisions: the creation of a ten percent tax bracket; an increase in the child tax credit from \$500 to \$1000; and tax relief for married couples. Clearly, such families do exist. But since only the child tax credit has an income ceiling, they also benefit high-income households. In 2004, for example, these three provisions provided \$547 to the middle fifth of households, while the top fifth will receive \$1558. Even more to the point, if the purpose of the Bush tax cut was to provide tax relief to middle-income households, a tax cut proposal could have retained the estate tax and kept the same rate on dividends, capital gains, and the upper income tax payers for just one-third the cost.<sup>3</sup>

These tax cuts have enormous economic consequences. First, they shortchanged the recovery. Instead of funneling the economic stimulus to workers with less discretionary income, the tax cuts follow the precept of trickle down and lavish funds on those least likely to spend them. The recovery lags, and deficits mount, producing either service cuts or a tax increase that is likely to be far less equitable than pre-existing law. The cuts have also hurt financially strapped states, because many states base some provisions of their tax code—a tax credit on the state estate tax, the bonus depreciation for small businesses—on federal law. And the cumulative effects will get worse over time because, by 2014, the cuts will encumber us with an additional \$1.1 trillion in interest payments.

Ultimately, however, this list of outcomes only adds to the mystery: if the Bush Administration tax cuts really are such bad economic policy, how did they get so many people to support them

### The Politics of Tax Cutting

Conservative policy-makers face a dilemma. If you really believe that investments by wealthy people propel the economy, if you are truly convinced in the wisdom of trickle-down, you must increase the return on invested money and reduce the taxes that the affluent pay. The problem is, however, that “let’s reduce taxes on the rich” does not rank very high on any list of winning campaign slogans. So if your primary goal is to lower taxes on the top one, five, or ten percent of the population, then you have to figure out a way of designing tax policies that create—well, perhaps not an absolute majority—but certainly a sufficient political base.

The conservative solution to this political dilemma has been to give much smaller tax rebates to enough people who aren’t affluent. It is a shrewd solution, one that both draws upon and further cultivates the individualism of the U.S.’s political culture. In this environment, the reasoning goes, if, in 2004, a family in the middle quintile gets \$1090 returned to them, they won’t mind that the top one percent paid \$78,460 less.<sup>4</sup> And, though the enthusiasm for tax cuts has declined somewhat from its absolute height, we must admit that, by and large, conservatives have correctly intuited the reaction. A significant swathe of the U.S. electorate does not care that these rebates have reduced the progressivity of the tax structure, lowered the ceiling on government spending, and constitute an extremely wasteful and inefficient mechanism for stimulating the economy.

Instead, they just want their money returned to them. Once that occurs, they're not terribly concerned with the equity issue of whether more is returned to other, wealthier people.

### The Social Ethic Underlying Tax Cuts

What are the origins of this political narcissism? And why have feelings of social solidarity shrunk so much? Even if we grant that individualism is deeply ingrained in the American social ethic, the version of it we see today has never been so constricted.

The economic myth of the 'self-made man' underpins this social ethic. This myth holds that whether they are cast as a frontiersman or as Horatio Alger, many Americans believe that whatever economic success they enjoy is entirely of their own making. They built the log cabin; they tamed the land; and they—all by themselves--climbed the ladder of social mobility. In its purest form, this myth was already a bit overdone 150 years ago. After all, the government built the Erie Canal that opened the west to development, gave land to railroads that enabled them to transport agricultural goods, and handed large tracts to each state so that they could establish the colleges and universities that would educate a workforce. Unless someone on the frontier truly had no contact with either these government interventions or the broader marketplace, they did not make on it their own.

Today, this social structure of accumulation has grown much denser, leaving even fewer crevices for this myth. The small businessperson who demands a tax rebate because it's her money forgets the critical contribution of public funding to her business success. Publicly funded roads carry her workers and the goods they produce. Publicly funded secondary schools and colleges trained her employees and may have even helped

to conduct the research on which her product is based. And when she does acquire some money, a publicly funded justice system defends her right to property. These investments define the business environment. She may think otherwise, but the hard truth is that she could not make any money without them.

The residual character of the U.S. welfare state also feeds the formation of this ethic. Many scholars have noted that the New Deal effectively divided social welfare policy into two tracks—one, social insurance for workers, and the other, “welfare,” for the poor. Since both social security and Medicare, the two main social insurance programs, are funded out of earmarked taxes, it is easy to encourage the perception that the poor are the primary beneficiaries of the other programs paid for out of general revenues. In heterogeneous society that long stigmatized the poor, such reasoning quickly leads some to conclude that if their money is only going to be spent on *those* people, then taxpayers have even an greater right to keep it for themselves.

The belligerence of this claim, moreover, has intensified in recent years. In the twenty-five years after the end of World War II, the economic security of most Americans increased steadily. Businesses stayed in this country, and median income rose. Between business acquiescing in taxation for social welfare and an electorate that felt confident enough about its future to share some wealth, social welfare spending shot upward.

The last three decades, however, have been very different. The major economic forces--globalization, job loss, and outsourcing--all devalue American workers. No longer are they the first choice of the global labor market: firms might employ them, but then again, if a better offer comes along, they might not. Their replaceability conveys a

undeniable message: they are insignificant: Not only is their income stagnant or declining, but in the larger scope of the global economy, they simply do not matter.

Delivered by large social forces over which the average worker has little control, this message is emotionally devastating, and it has triggered many different reactions. Some people have blamed immigrants and/or racial and ethnic minorities. Others attribute the loss to less religion, the decline of traditional values or the cultural elitism of the Democratic party. A few even point to changes in the economy and the effects of globalization.

Whatever the explanation, it is clear to most people that the scale of the social forces effecting these changes dwarfs the power of any single individual. If you can't block immigrants from crossing the Texas border; can't prevent network executives from marketing ever more explicit reality television shows, and can't stop a corporation from moving overseas, then this new economy is bound to trigger a rising hunger for policy measures that at least give some appearance of enabling people to control their economic destiny. In an economy where many people experience themselves as running in place, tax cuts are the policy that best perpetuate this illusion.

This illusion has three components. The social nature of production belies the first component--the notion that "it's your money." In fact, as previously indicated, virtually no one in the United States today makes a living outside of a marketplace that the government shapes and enables. Moreover, if you assume that it requires a given level of public funding to make this system run, then any reduction in those funds are sure to lead to a less effective social structure of accumulation. However much some people might want to opt out of this process, the social policy of tax reductions leads to an economic

environment that undermines social welfare, destroys the mechanisms that enable private profit, and makes it ever more difficult for people to make money in a stable marketplace over the longer term.

The second component is the belief in control. It, too, is illusory, because an additional \$500 or \$1000 will not give anyone leverage over social forces of such magnitude. People seize on the opportunity to get this money because many are economically strapped, and raises are rare. In the larger scheme, however, an additional \$10 a week is barely enough for a snack at a fast food restaurant. It will not stop downsizing, impede outsourcing, or slow the processes of globalization. Indeed, to the extent that it defunds governments, it takes the financing away from the primary institution that might significantly affect these economic outcomes.

Besides, what are people going to do with this money? Since they are not rich and do not have much discretionary spending, most will use it to pay for their basic needs—day care, food, health, housing, and education. Tax reductions lure people with the promise that these needs can be satisfied through consumer sovereignty. Yet this sovereignty is completely illusory, because the market will only satisfy these needs if businesses can be assured of a profit. Although the affluent can spend in amounts that guarantee a profit (private day care and universities, high-priced specialty foods, the best doctors, the most expensive real estate), the median American worker can never be certain that their discretionary income is sufficient to assure the existence of a service. No wonder then, that amid the growing market triumphalism of the last three decades, the cost of a college education spirals upward, forty-five million people do not have health care, and housing falls increasingly out of reach.

Consumer sovereignty, then, offers a critical vantage point to examine the social ethic underlying tax cutting. This ethic does not see people as citizens. Instead, it envisions people as depoliticized consumers--individual shoppers who will buy goods and services in the for-profit marketplace and thereby satisfy their own needs. The disengagement from civic concerns is palpable. The issue is no longer whether anyone else has their needs met. The only issue is whether you have.

But here's the great paradox of tax cutting policy. Even on these grounds, tax cuts are likely to fail. The reason for this failure is very simple. It is going to cost more for each of us to purchase most basic necessities than it would for the government to provide them. The private sector cannot undersell the government for these goods and services because it cannot socialize risk. Although it can sell goods and services at somewhat lower prices if the market is deep, less affluent American workers do not have enough discretionary income to create this marketplace. The result is that over time, if they function purely as individual consumers, the marketplace will gradually disown them.

To illustrate how this process works, all we need to do is to look at what has happened to health insurance. Suppose you don't get health insurance at work, are not eligible for any other group plan, and try, as a solitary consumer, to purchase coverage for your family. The price—probably somewhere between \$5000 and \$10,000 a year—is going to be frightening, which is why each of us seeks to affiliate ourselves with some group and does not buy health insurance on our own. We are all very familiar with the reason for this price differential: large groups enable insurance companies to pool the risk. If you insure your own family individually, the insurance premium must be higher because there isn't enough money coming in to protect the insurance company against the

possibility that you or someone in your family will become ill. By contrast, in a group where the risk pool is much larger, the premiums from other healthier participants are always there to absorb the loss.

Most critically, this classic justification for the welfare state—the socialization of risk—applies with equal force to virtually every other social welfare policy. Indeed, as the economy’s demand for private profit contracts the market for the widespread satisfaction of common human needs, the necessity of socializing risk is going to creep up the economic ladder. By itself, this trend sharpens the question: if the real satisfaction of common human needs in education, day care, housing, health, and job training cannot be attained through a policy of tax rebates, what will it take to substitute an ethic of social solidarity and social caring for the illusions of consumer sovereignty?

The question is so daunting because on any given day, each of us receives dozens of formal and informal signals that we had better look out for ourselves. Repeatedly, we are told, no one else is going to be there for you. And so, from the television program “Survivor” to the replacement of company pensions by worker-sponsored 401Ks, the ethic of hyperindividualism reigns. Such an environment is a cruelly inhospitable place to sow the seeds of social solidarity. How do we begin?

We begin, it seems to me, with three modest guidelines. The first is broadly political. For over a generation now, the Democratic Party has pursued the (white) “middle class” and rejected any mention of the poor. Led by the Democratic Leadership Council, the Democratic Party’s business wing, the party elite have essentially tried to walk on one leg—appealing to middle-income voters without—except for the last two weeks of every presidential election—acknowledging the poor, and protecting social

insurance programs while acquiescing or actually initiating cuts in programs associated with “welfare.”

This strategy is very risky. It negates the economic supports that might have defused some racial animosity among white working class men and thereby stopped their headlong departure from the Democratic Party. Moreover, at a time when one in five American workers are in industries where the median income is \$8.84 an hour, it misconceives the true potential of a winning electoral coalition.<sup>5</sup> It is not *primarily* the poor, as the DLC would describe the “liberalism of the Democratic Party in the 1960s, nor is it *primarily* the shrinking segment of middle income voters, as the DLC has preached for the last two decades. Instead, a winning strategy would resurrect a modern version of the old New Deal coalition. Walking on two legs, it would include both poor and middle-income workers. Skillfully executed, this strategy would use the joint socialization of risk to bind them together, so that everyone—even those who are not affluent--can cope with the growing economic insecurity of a global economy.

There are two likely sources of opposition to this strategy. One, of course, is the predictable reaction from business community, which, with the exception of its more far-seeing elements, has consistently opposed most expansions of social welfare. In the shorter term, however, another kind of opposition is likely to prove more problematic, and that is from middle-income voters themselves, who, whatever the economic difficulties they faced over the last generation, have often salvaged their last shred of self-respect by defining themselves as “not poor.” To get them to affiliate with the poor, we are going to need a single precedent that establishes the benefits of social solidarity

and the socialization of risk. In short, we need a wedge issue, one that creates a positive model for our vision of social welfare.

But from where in the barren landscape of social welfare programs promoting social solidarity is such a program likely to come? My guess is that of all the options open to us, national health insurance is our best bet. Since the absence of national health insurance creates a competitive disadvantage for some companies, national health insurance might fragment opposition among the business class. Moreover, with health costs rising, and baby boomers on the verge of retirement, support for national health insurance has the potential for reaching a critical mass. Attitudes towards health, in particular, heighten this prospect, because 91 percent of Americans believe that “everyone should have the right to the best possible health care—as good as a millionaire gets.”<sup>6</sup> Where welfare--defined as cash assistance programs--lends itself to invidious distinctions, health by its very nature invites us all to share in the socialization of risk. For all these reasons, it seems to be the most likely issue to undermine the ethic of tax cutting and reintroduce the idea of a 21<sup>st</sup> century welfare state based on the principles of social solidarity.

**Endnotes**

1. Isaac Shapiro and Joel Friedman, Tax Returns: A Comprehensive Assessment of the Bush Administration Tax Cuts (Washington, D.C.: Center on Budget and Policies Priorities, 2004), p.5
2. Edmund L. Andrews, “Report Finds Tax Cuts Heavily Favor the Wealthy,” The New York Times, August 13, 2004.
3. Shapiro and Friedman, Tax Returns, pp. ix and 20-21.
4. Andrews, “Report Finds Tax Cuts Heavily Favor the Wealthy,” The New York Times, August 13, 2004
5. Bob Herbert, “Working for a Pittance,” The New York Times, October 8, 2004
6. Robert Kuttner, Everything for Sale (New York: Knopf, 1997), p. 116