

Rich getting richer

Scott PETERSEN

Abstract

One of the most contentious issues in American politics concerns the concept of the free market. One side touts the free market against government interference, whereas the other admits a definite role for government. However, if we use the linguistic concept of framing, it is clear that even free markets involve quite a bit of government interference. However, counter intuitively, the interference actually is for the benefit of the already wealthy. It can be characterized as a sort of reverse Robin Hoodism. This paper explores this assertion.

Introduction

Many people hold the opinion that one function of government is to help steer the economy. However, a few decades ago, conservatives began to disparage the ability of government to help. “The nine most terrifying words in the country: I’m from the government and I’m here to help”,¹ reads one of the most famous lines of President Ronald Reagan. In contrast, other political thinkers assert that one of the government’s functions is to make sure that the fruits of society benefit all members of society. It can accomplish this by taxing financial winners in order to provide financial losers with a safety net. In the United States, this safety net consists of such programs as food stamps or welfare payments. This type of government policy has been criticized as redistribution, which is bad because people who generate wealth are penalized for being financially successful. If society penalizes them heavily, then they will cease to generate the wealth required for a vibrant society. Recently, political scientists, economists and others have begun to question this criticism. If one exams more closely the process of becoming financially successful, one will see these financial winners in fact enjoy government benefits that drive their financial success. They enjoy special privileges that might be characterized as reverse Robin Hoodism. In the English legend, Robin Hood took from the rich to give to the poor. The privileges that successful individuals enjoy seem more like taking from the poor and giving to the rich.

This report would like to detail the argument. First, I will point out that Reagan’s maxim quoted above is much too simple. Secondly, I will argue that the problem arises from using a single label for differing concepts so that people with differing political opinions end up talking at cross-purposes. I will attempt to elucidate

¹ Reagan, 1986.

the problem by outlining the concept of framing. In trying to develop one's political position, framing is important in evaluating various political policies. After that, I will present three areas in which the fruits of society get distributed not downward by taxing the successful but rather upward by providing privileges and incentives that contribute to success. Finally, I offer an area needing further research.

Simplistic ideas about government

“The nine most terrifying words in the country: I’m from the government and I’m here to help.” This phrase puts on a pair of blinkers, ignoring anything that might disagree with this worldview of the function of government. If the Congress tries limiting the money allotted to government, they will soon upend parts of the economy. Let me cite three examples.

Right at the beginning of the United States, the third president, Thomas Jefferson, was famous as an advocate of a small government. He is a philosophical precursor to President Reagan. However, he had no philosophical problems when asking Congress for money to fight the Barbary Pirates operating along the coast of northern Africa. Pirates had been boarding trading ships and demanding ransom to leave the sailors alone.² The U.S. government had several times paid the ransom, but when Jefferson came into office, he decided to stand and fight. He and his supporters ignored the increase in government size that this allotment of money created. Again, Jefferson’s signatory accomplishment was the Louisiana Purchase through which the United States “bought” the entire part of the country. The Constitution does not give the government the right to do this. It was a great extension of government power, but Jefferson had no problem doing so.

An even starker example of big government money involves the distribution of water in the western U.S. The western section of the country faces a problem: rainfall is not distributed evenly, and so some parts regularly suffer from droughts, while other parts experience flooding. One of the policies of the New Deal strove to deal with this problem by building a series of dams, reservoirs and aqueducts. The state of California is home to over 1200 water-distribution projects. Without these projects, it is safe to say that the state would not enjoy the economic prosperity that it does. Every one of these projects was built by the government.³

At the present, people are coming round to acknowledging the government’s role in providing infrastructure projects such as dams, bridges and roads.

² Randall, 2014.

³ Reisner, 1993.

Framing

A very important concept borrowed from linguistics is “frames.” Frames establish the definition of terms in an argument. If one side in a discussion can establish the legitimacy of their definitions for terms, then they can control the direction of a discussion.

In the discussion here, perhaps the most important term needing clarification is “free markets.” Many conservatives try to steer the debate by establishing a dichotomy between “government interference in the economy” and “free markets.” Whenever a government interferes with the workings of the market, the endeavor will end in failure. Free markets must be allowed to work their magic. If they are so allowed, then they will efficiently allocate the scarce resources of society. The downfall of the Soviet Union has shown that government-directed economies end in failure. They not only fail to provide the necessities of life--clothes, food and shelter--they end up using coercion to reach their objectives and thus deprive citizens of freedoms.

Several problems exist with this definition. First of all, markets cannot exist without governments. For markets to exist, governments must carry out many tasks, including enforcing contracts, building infrastructure, providing police and fire protection, maintaining the value of a currency, not only within the country but also across borders. This last task requires coordination with other governments. Markets are not naturally occurring phenomena. Governments create them.

Conservatives might acknowledge these functions of government as being proper, but they argue that government overreaches when it tries to fulfill more activist functions such as attempting to steer an economy, providing health care, developing policies that alleviate poverty or reduce suffering. Such policies short circuit the workings of the Invisible Hand of the free market as laid out by eighteenth century Scottish political economist Adam Smith in *The Wealth of Nations*.

Karl Polanyi offers a major critique of this dichotomy.⁴ The conservative argument assumes that the economy subsumes the society. If the economy is working efficiently, then society will too. Polanyi argues that this is backwards. The society subsumes the economy. Government at times will have to guide society without regard to an economic market.

If one thinks about this a little, one sees clearly that this is the case. For example, the society, in the guise of the government, has determined that drugs such as heroin pose a danger and have therefore made them illegal. But this extends to not only what we term illicit drugs such as heroin but also to prescription drugs such as strong painkillers as Vicodin.

⁴ Polanyi, 2001.

Conflicts arise in many countries today because of differing views about whether a given policy falls into the category of free market principles or necessary functions of government. The citizens of the United States today is embroiled in many such conflicts, perhaps the most overriding conflict concerns the provision of health care. One side asserts that health care is the individual's responsibility, whereas the other side asserts that the government must play a major role in health care because health care does not lend itself to free market solutions. Professor Greg Mankiw of Harvard University provides a succinct overview of problems with viewing health care exclusively through the prism of the free market.⁵

Indeed, the main mechanism for counter-RobinHoodism is interference in the free market to the benefit of certain groups of politically well-connected citizens. Let us turn to a consideration of various ways the government "interferes" in the economy that are not framed as such.

Interference

The first way of government interference masquerading as free market policy is tax incentives. The government establishes tax policies that favor certain groups. Sometimes the government actually raises taxes on the populace and uses that money for the benefit of a chosen few.

David Cay Johnston in his book *Free Lunch*⁶ has reported numerous examples of this kind of government interference. I would like to introduce one case he details concerning baseball. Johnston claims that most teams only make a profit because of their government subsidies and other special considerations. What makes his reporting especially interesting is that he reports a case study of George W. Bush, the former U.S. president who claimed to be a strong supporter of free markets. Before becoming governor of Texas, he led a group of investors who bought the Texas Rangers baseball team. The former owner wanted to sale the team because, in Johnston's words, he considered the team an expensive hobby due to it continuously losing money. Bush gathered investors by telling them the team could succeed if they only had a new stadium. In setting about to build a new stadium, Bush convinced the taxpayers of Arlington (the location of the stadium) to increase their sales tax by a half a cent. The investors wanted not only the 17 acres of land for the stadium (around 68,800 sq. meters), but also 200 acres (a little over 809,000 sq meters) for an entertainment zone of hotel and restaurants. Instead of using the free market to acquire the land, the investors convinced the city to use the government's power of eminent domain to seize the land from unwilling sellers. Interestingly, the investors that Bush lined up were

⁵ Mankiw, 2017.

⁶ Johnston, 2008.

wealthy enough that they could have raised all the money on their own without recourse to government interference.

The Texas example is not the only case of taxpayers subsidizing the sports-loving wealthy. Johnston also chronicles the case of how the New York Yankees obtained land for their new stadium in a similar fashion. Again, the owner of the Yankees is a very wealthy man and could have financed the construction of a new stadium on his own.

The conservatives could advocate such policies because they framed the issue as being good economically. However, as the Tax Association has clearly shown, the facts belie this framing. Unfortunately, no amount of counter evidence will cause conservatives and many others to adjust the frame. Indeed, the resistance to change is one characteristic of the concept of frames. Interestingly enough, even if their assertion were correct, it still involves government interference in the market.

One could assert that Social Security, established in 1933 under President Roosevelt, was also good economically. It put money in the pocket of elderly who otherwise might have lived in poverty. Putting more money in the pockets of citizens in the lower economic strata of society would also be good economically. However, conservatives have opposed Social Security since its very inception and indeed recently have set about eviscerating the program through indirect ways. Over the past several years, the Republican-lead Congress has been lowering the amount of money allotted for the administration of the program.⁷

Similar cases continue to arise. Recently, the online bookstore Amazon has let it be known that they will be opening a new headquarters. They let it be known because they are quietly (or maybe not so quietly) soliciting “bids” from local governments in the form of special tax benefits. Local governments offer not only tax holidays whereby Amazon would not have to pay property taxes for a specified period, but might also offer land free of charge for the building of the facility.⁸

A second way of government interference is through tax expenditures. First, I need to explain how Americans pay their income taxes. In contrast to many countries, American are obligated to file a tax return every year. People reduce the tax owed through one of two ways: a standard deduction for themselves and their dependents or through itemizing their expenditures throughout the year. These expenditures are allowed as deductions in fairly complicated ways. Due to the complication of recording expenditures and calculating the percent of the expenditures allowed as deductions, most citizens use the standard deduction. The second type of itemizing expenditures as deductions are one kind of “tax expenditure.” The web site of the well-respected nonpartisan Tax Policy Center cites a fuller definition:

⁷ Hitzlet, 2017.

⁸ Mullin, 2017.

The Congressional Budget Act of 1974 defines tax expenditures as “revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.” These provisions are meant to support favored activities or assist favored groups of taxpayers. Thus, tax expenditures are alternatives to direct spending programs or regulations to accomplish the same goals. The Office of Management and Budget (OMB) and the Congressional Joint Committee on Taxation (JCT) each year publish lists of tax expenditures and estimates of their associated revenue losses. The Treasury Department prepares the estimates for OMB⁹ (emphasis added).

Instead of explicitly allocating money to accomplish a goal, tax expenditures reduce the amount of tax a person or corporation has to pay. However, tax expenditures have the same impact on the budget. Either the government pays out more money or it allows taxpayers to lower their tax burden. In both cases, less money is available for other purposes.

What sorts of deductions come under this rubric? One widely used deduction is the mortgage interest deduction. If a taxpayer owns a home and pays interest on the mortgage, they can deduct a certain amount from of the interest from their tax bill. However, since the majority of taxpayers just take the standard individual deduction and do not itemize, most people gain no benefit from this deduction. The people who benefit most from this deduction are high-income earners. They may have a million dollar home. In other words, the government helps pay for the luxury house. The Tax Policy Center analysis concludes

Individual tax expenditures reduced federal revenues by \$1.168 trillion in 2015, according to new estimates by the Tax Policy Center. And the biggest share of these subsidies goes to the highest-income households.¹⁰

Another category of deductions concerns health care. Individuals can take deductions if they have enough medical expenses. Again, most people do not have enough such expenses and therefore have no benefit. Employers, however, can take a deduction from their income tax. Again to cite the Tax Policy Center, “[l]ooking at the

⁹ Tax Policy Center, 2017a.

¹⁰ Tax Policy Center, 2017c.

distribution of total benefits, the top 20 percent get about 45 percent while the bottom fifth gets 0.5 percent”.¹¹

Another kind of tax expenditure concerns preferential treatment of certain kinds of income. The most-widely known in this category is the different rates of taxation for long-term capital gains and qualified dividends. These face a schedule of tax rates (which depend on total income) from 0% to 20%, whereas regular income from wages face a schedule of tax rates from 10% to 39.6%. Top income earners acquire a larger percentage of their income from capital gains and dividends. They pay taxes at a lower rate than do average income earners.

This does not exhaust this topic. Entire books have been written detailing how the tax system is tilted to push money up to the top. For example, David Cay Johnston¹² and Dean Baker¹³ have written extensively about this.

Finally, as examples of ways of government spending clothed as free market policies, I will consider certain privileges framed as economically necessary policies, but actually involving government interfering in the free market.

The first of these is simply corporation status. The key aspect of a corporation is limited liability, which limits the liability a corporation may cause to the corporation itself. Therefore, top management or shareholders are not called upon to pay compensation.¹⁴ Of course, the corporation itself will have to pay any compensation, but not individuals unless actual criminal activity is involved. If a corporation causes water pollution, top management do not have to pay the price. Often the corporation has no trouble paying compensation and indeed paying may in fact be cheaper than not polluting in the first place. Automobile safety is a case in which the expense of producing safer automobiles exceeds any compensation the company may be forced to pay.

Another policy favoring wealthy business owners is the approach to unions. Many anti-union policies exist that have the effect of limiting the effectiveness of unions. One might say that unions offer a counterweight to the power that can accrue to corporate power. If such a counterweight were effective, perhaps there would be less call for government interference in the economy. Depending on the state, unions can not force workers to contribute financially to the union through members’ dues, but the unions can nevertheless be forced to represent those workers in salary negotiations. Because of weakened union power, corporations have fewer restrictions on safety issue or fair treatment.

¹¹ Tax Policy Center, 2017b.

¹² Johnston, 2008.

¹³ Baker, 2006; Baker, 2011; Baker, 2016.

¹⁴ Baker, 2011.

Perhaps, the most blatant interference of the government in the economy involves copyrights and patents. The power to grant copyrights and patents comes from Article 1, Section 8, Clause 8 of the United States Constitution.

Clause 1: The Congress shall have Power ...

Clause 8: To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;¹⁵

Presently, this clause is realized in the Copyright Law of 1998, which provides for protection of copyrighted works for the author's life plus 90 years. It would seem that 90 years is not a limited time, but the US Supreme Court has ruled that the extension of the previous copyright law in fact does not violate the condition of "limited time".¹⁶

Perhaps more than copyright, it is patent protection that is counter-Robin Hoodism. Drug companies famously charge whatever they wish for the patented drugs in their possession. Perhaps, a recent case involving the Mylan Corporation's product EpiPen is a good example. Aaron Carroll provides a good overview of the case.¹⁷

The EpiPen is a delivery device for epinephrine, a drug used to counteract anaphylaxis, an extreme, life-threatening allergic reaction to drugs, food or bee stings. The drug must be administered quickly to forestall anaphylaxis, which causes the heart to beat faster and blood vessels to constrict, making breathing difficult. The drug itself is not expensive; even in developing countries it costs only a dollar per milliliter. However, the administration must be quick and in the correct dosage. The EpiPen device takes care of both requirements. It contains the correct dosage and only requires that the tip of the device against the thigh and push. The drug gets delivered. It has been on the market since 1977 and its development costs were recouped long ago.

Nine years ago, the device was bought by the corporation Mylan. At the time of purchase, an EpiPen cost US\$57 each. Gradually, the company began to raise the price and has done so several times. Today, they cost US\$600 for a pack of two. People who need the drug cannot forgo this cost. It is a life-saving drug. Moreover, the drug deteriorates over time and must be replaced every year. In addition, most people buy several to keep in various places. Other companies have tried to develop similar devices that could replace the EpiPen, but so far they have not been successful. The government could solve the problem by simply removing the patent. Other companies could reverse engineer the device and produce competitors. Such is the way of a free

¹⁵ U.S. Constitution, <http://constitutionus.com>, accessed October 23, 2017.

¹⁶ Supreme Court, 1993: ELDRED V. ASHCROFT.

¹⁷ Carroll, 2016.

market. The constitution's reasoning for allowing Congress to grant patents is that inventors should have exclusive rights to their discoveries. Whoever the inventor of the EpiPen was, it was not Mylan.

Conclusion

In this brief paper, I have tried to indicate that whereas many politicians proclaim their support for a free market, we can easily see that government policies run counter to those proclamations. I have pointed certain simplistic ideas about government interference, and proposed using the concept of framing to show that whether a free market policy is truly free market depends on how it is framed.

The economic inequality that has been growing over the last few decades is at least in part due to government policies that promote government interference to the benefit of the already wealthy. Further research to explain the inequality might probe how the decline of trade unions has contributed to the inequality. Previous to President Reagan, unions provided a strong counter weight to large corporations, and this obviated the need for government interference in the economy. Such a probe will examine the reason for the existence of unions and the reasons for their decline.

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