

Is big business ruining America?

Lane Kenworthy

Fall 2011

Outline

The 2008-? economic crisis

Influence on government policy

The longer-term economic problem: slow income growth for the bottom half

The 2008-? economic crisis

The damage

Wrong turns in

GDP per capita

Employment rate

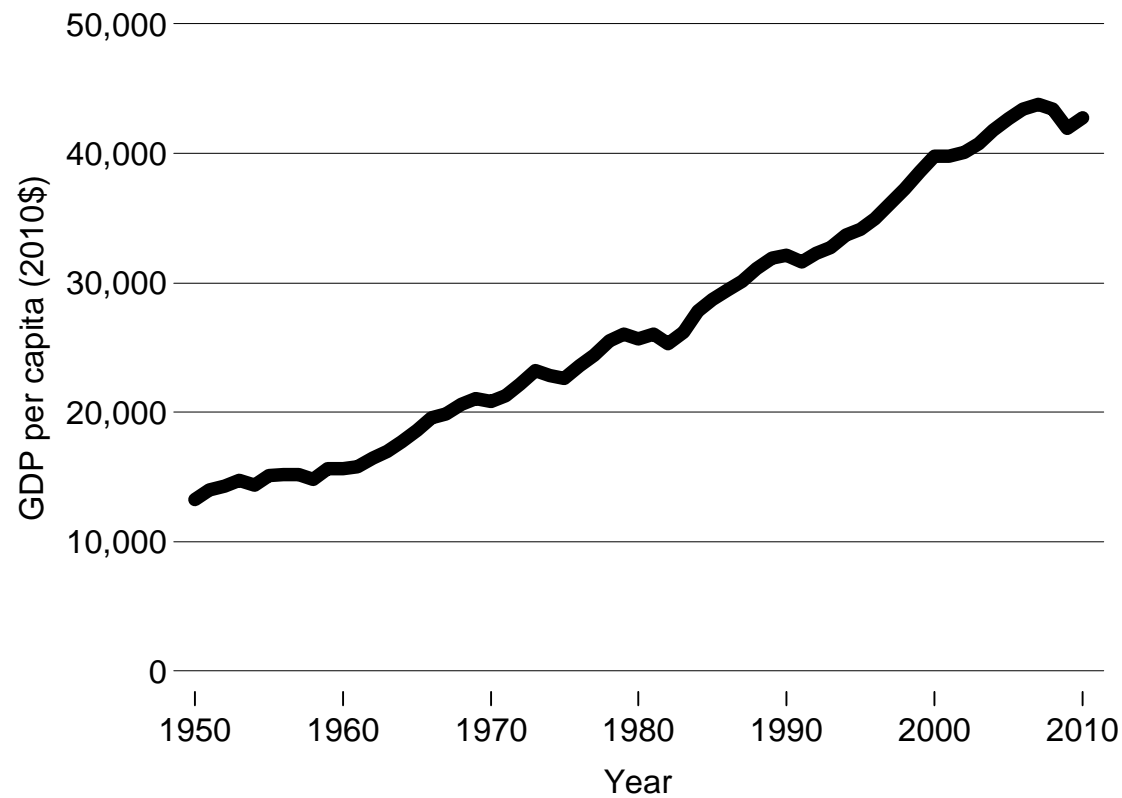
Median household income

Poverty rate

Home prices

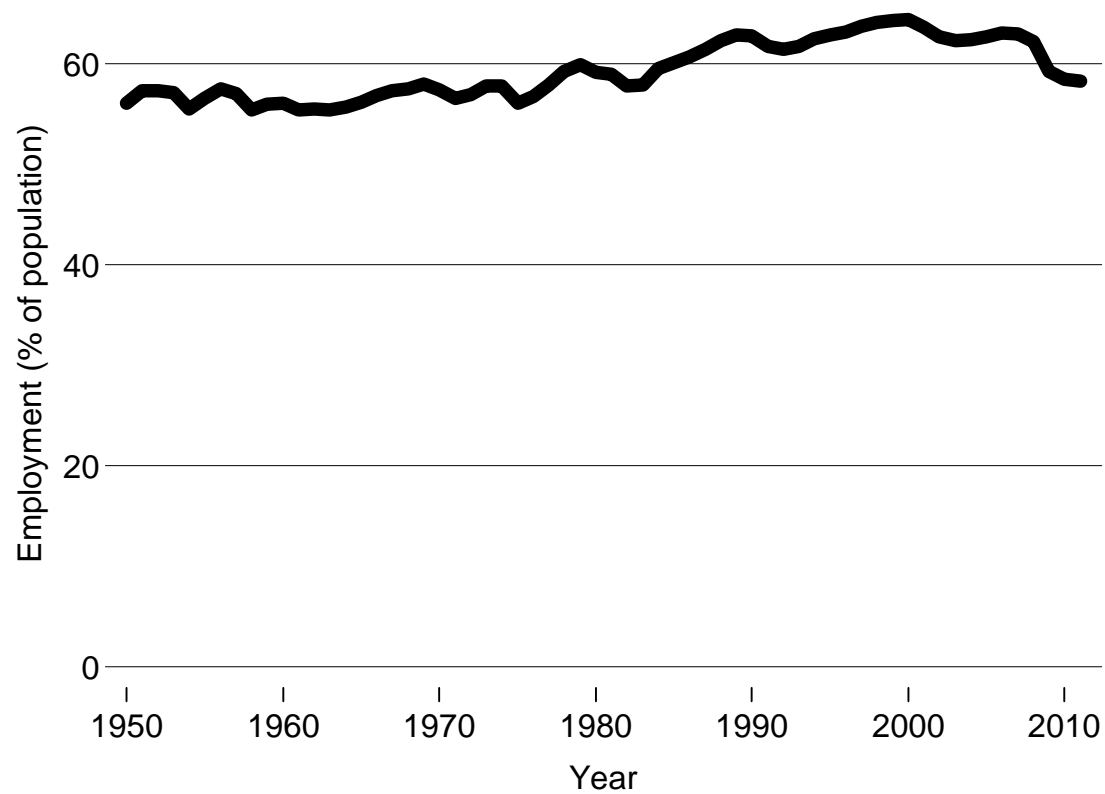
Stock prices

The damage: GDP per capita



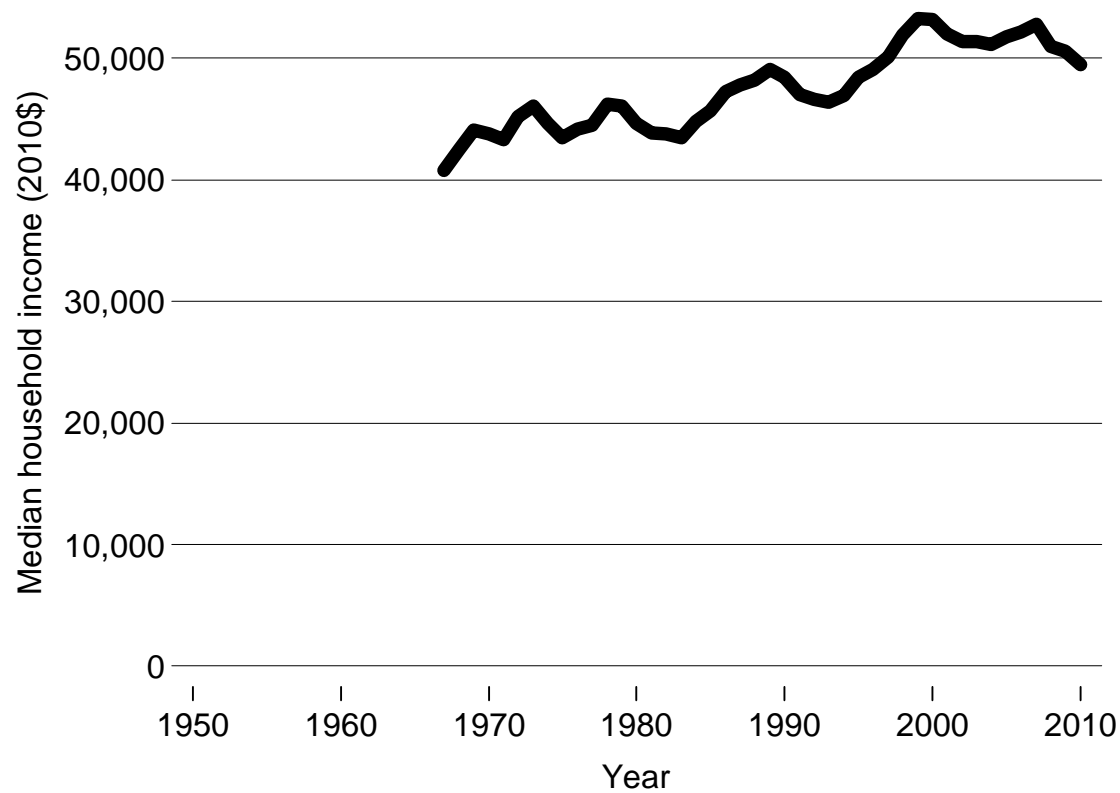
Gross domestic product (GDP) per person. Data source: Bureau of Economic Analysis, www.bea.gov/national/nipaweb.

The damage: employment



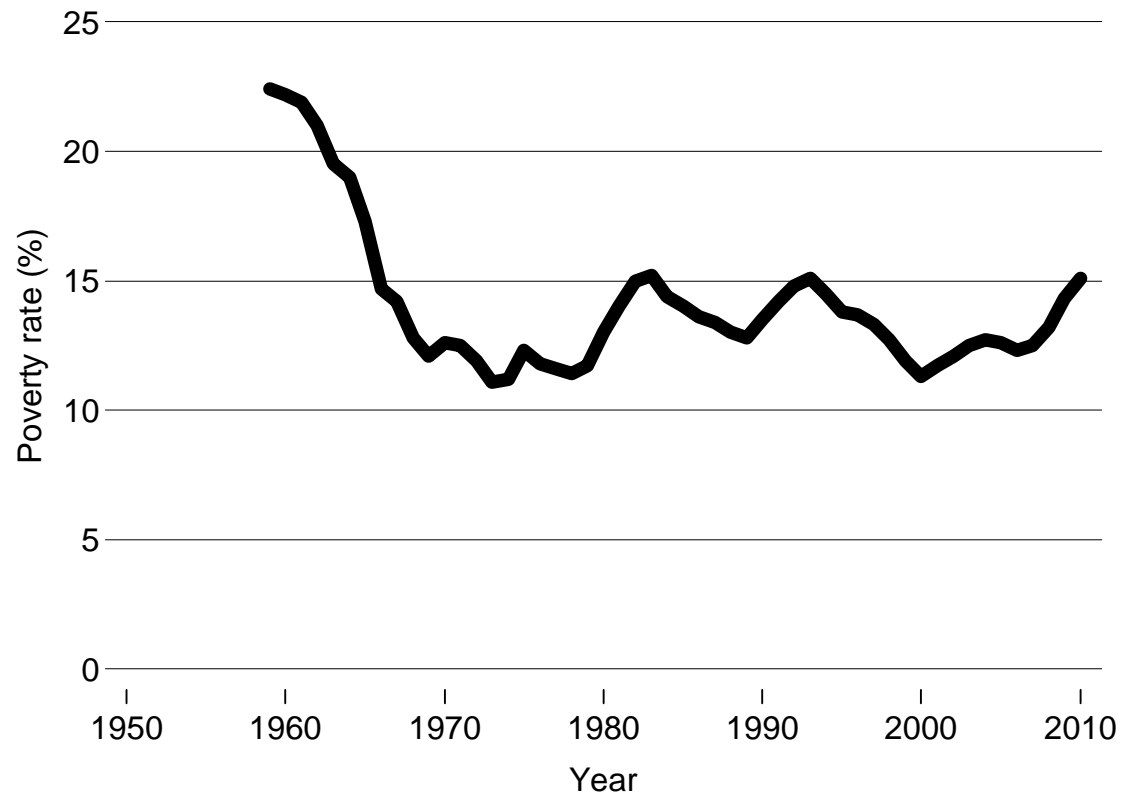
Employed persons as a share of the population. Data source: research.stlouisfed.org/fred2, series = emratio, using Bureau of Labor Statistics data.

The damage: median income



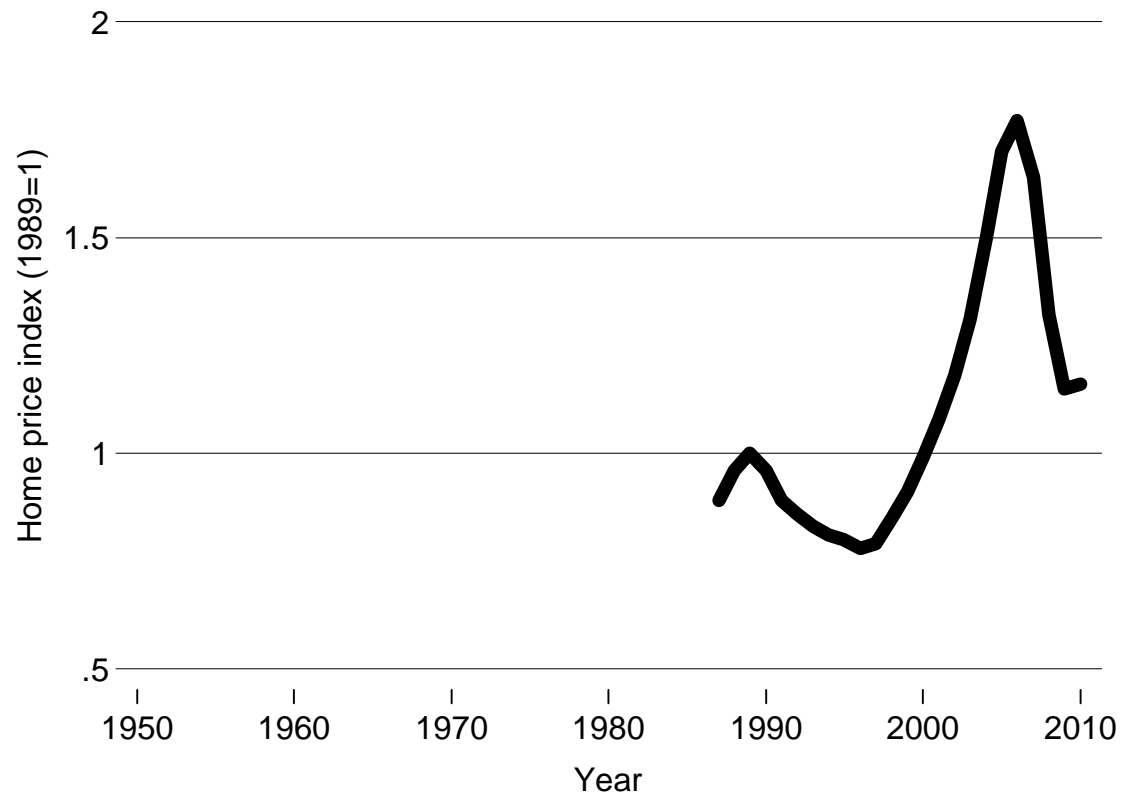
Median household income. Inflation adjustment is via the CPI-U-RS. Data source: Census Bureau, www.census.gov.

The damage: poverty



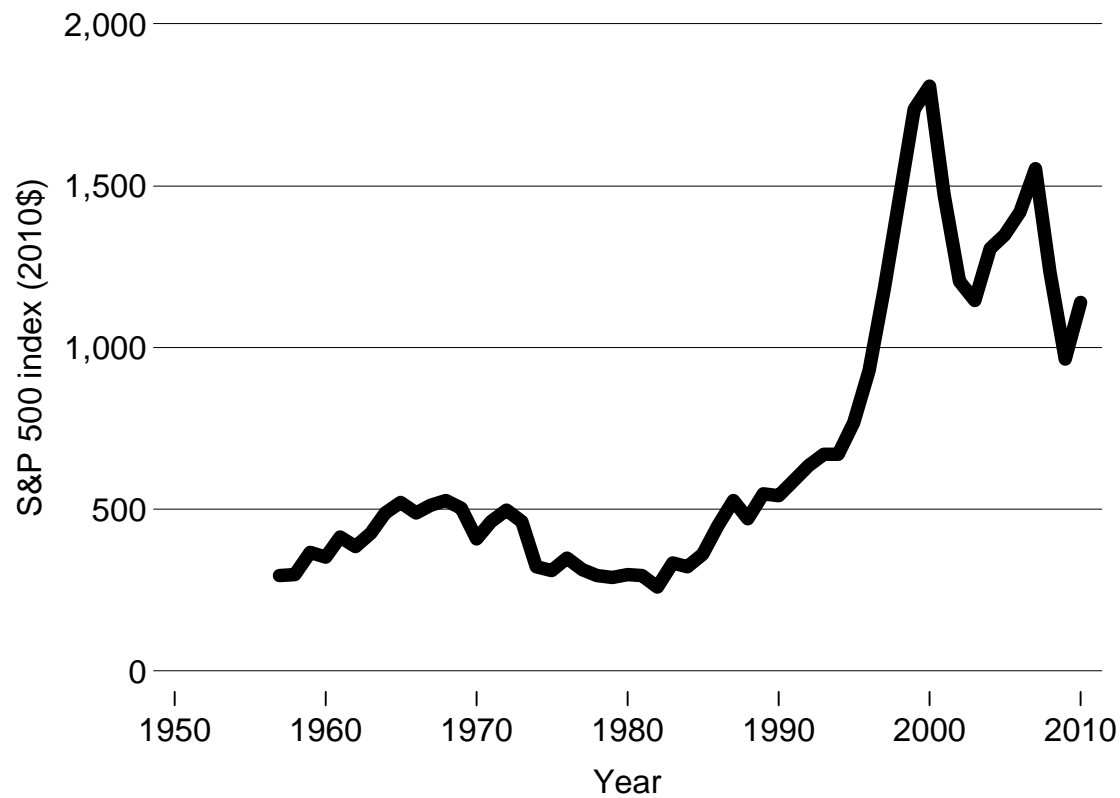
Share of persons living in households with income below the poverty line. Data source: Census Bureau, www.census.gov.

The damage: home values



Case-Shiller 10-city home price index. Inflation adjustment is via the CPI-U-RS. Data source: research.stlouisfed.org/fred2, series = spcs10rsa, using Standard and Poor's data.

The damage: stock values



S&P 500 index. Inflation adjustment is via the CPI-U-RS. Data source: research.stlouisfed.org/fred2, series = sp500, using Standard and Poor's data.

Causes of the crisis

1. Finance gone wild

New financial instruments and strategies

Mortgage-backed securities (lenders)

Credit default swaps (insurers)

More aggressive use of short selling (hedge funds)

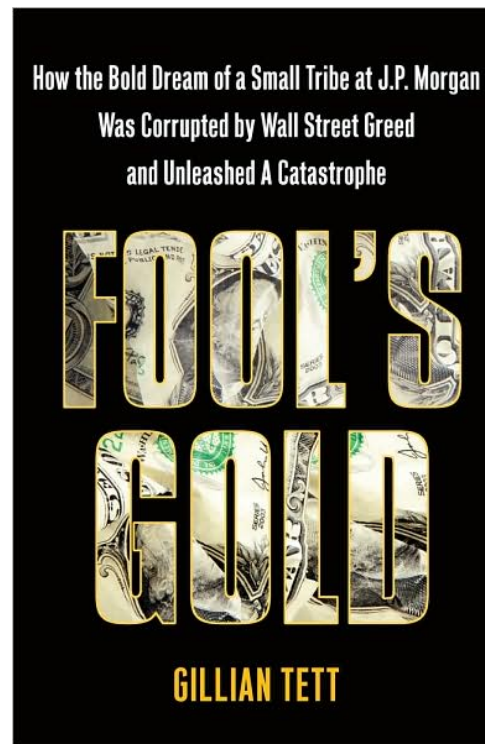
New pressures and opportunities

Heightened emphasis on short-term profits

Enormous increase in reward

Causes of the crisis

1. Finance gone wild



Causes of the crisis

2. Housing bubble

Subprime mortgage loans

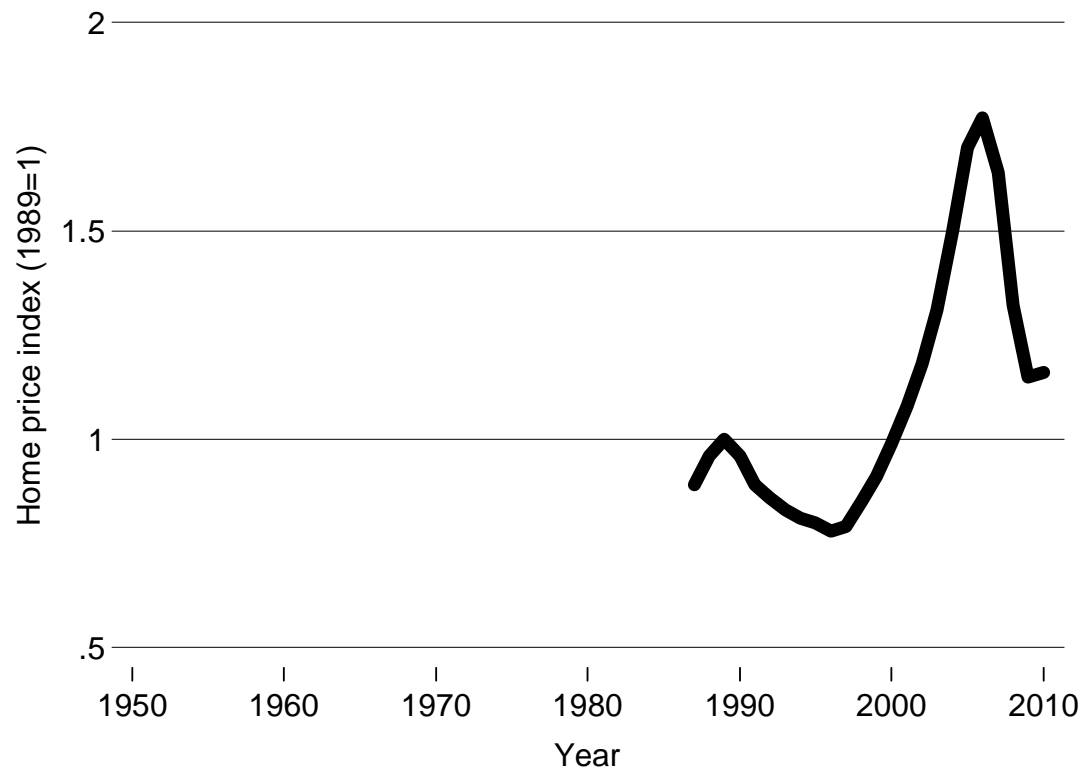
Adjustable rate mortgage loans

Smaller down payments

Home equity loans

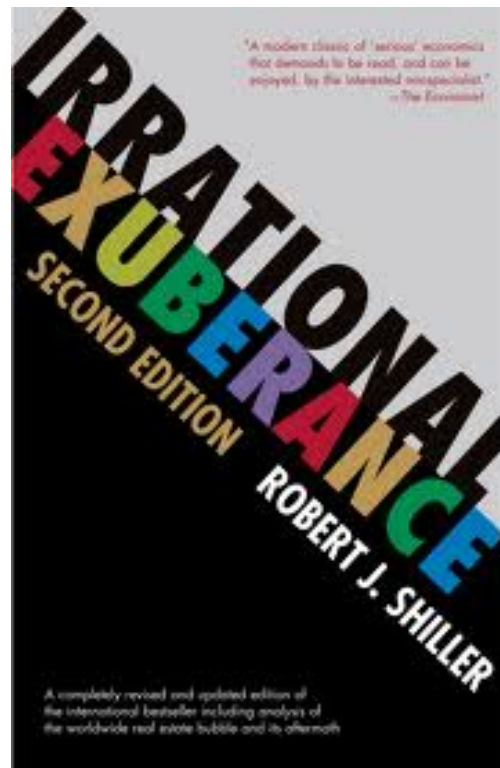
Causes of the crisis

2. Housing bubble



Causes of the crisis

2. Housing bubble



Causes of the crisis

3. Government failure

Inadequate regulation/oversight of finance

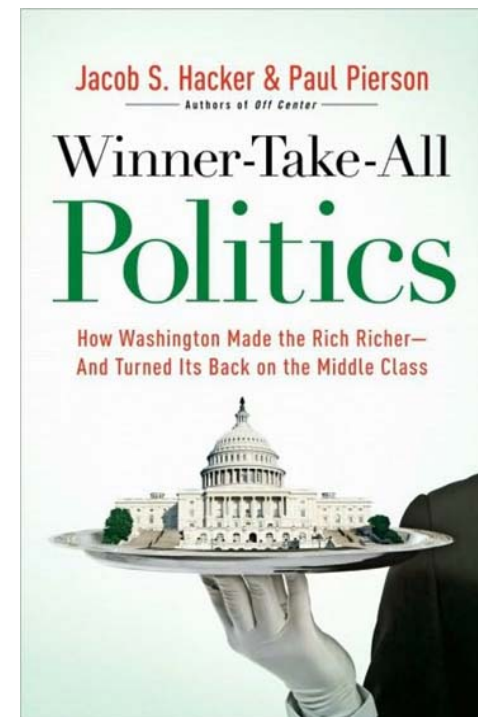
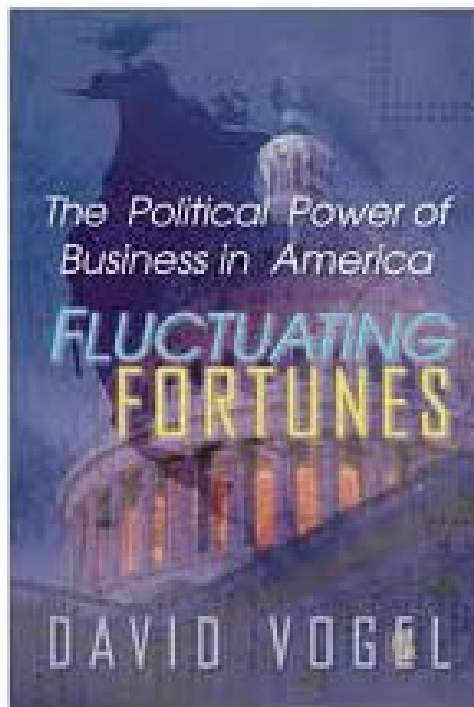
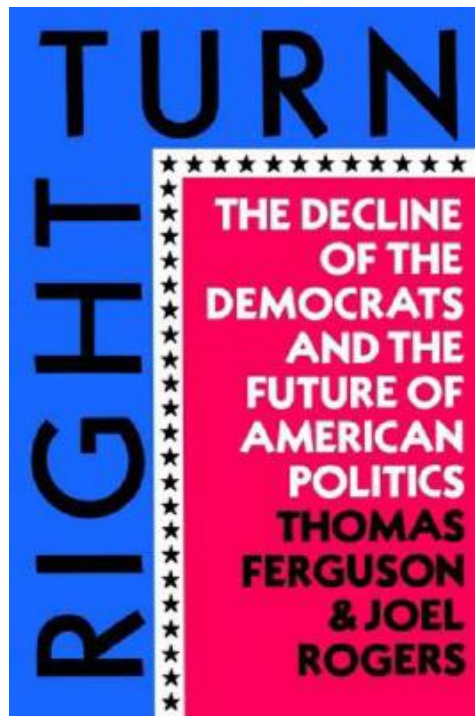
Greenspan Federal Reserve's skepticism about the possibility of a housing bubble

Participation in the spread of subprime loans via Fannie Mae and Freddie Mac

Influence on government policy

Influence on government policy

In the 1970s, American firms began a concerted effort to exert more influence on government decision making



Influence on government policy

Sources of influence

Business organizations

Think tanks

Lobbying

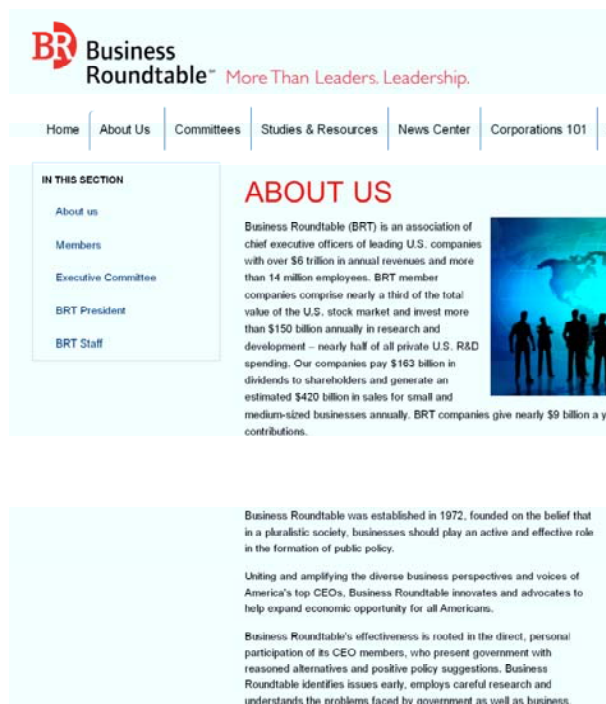
Campaign contributions

Representatives in key government positions

Influence on government policy

Sources of influence

Business organizations



BR Business Roundtable™ More Than Leaders. Leadership.


Home | About Us | Committees | Studies & Resources | News Center | Corporations 101 |

IN THIS SECTION

- About us
- Members
- Executive Committee
- BRT President
- BRT Staff

ABOUT US

Business Roundtable (BRT) is an association of chief executive officers of leading U.S. companies with over \$6 trillion in annual revenues and more than 14 million employees. BRT member companies comprise nearly a third of the total value of the U.S. stock market and invest more than \$150 billion annually in research and development – nearly half of all private U.S. R&D spending. Our companies pay \$162 billion in dividends to shareholders and generate an estimated \$420 billion in sales for small and medium-sized businesses annually. BRT companies give nearly \$9 billion a year in contributions.



Business Roundtable was established in 1972, founded on the belief that in a pluralistic society, businesses should play an active and effective role in the formation of public policy.

Uniting and amplifying the diverse business perspectives and voices of America's top CEOs, Business Roundtable innovates and advocates to help expand economic opportunity for all Americans.

Business Roundtable's effectiveness is rooted in the direct, personal participation of its CEO members, who present government with reasoned alternatives and positive policy suggestions. Business Roundtable identifies issues early, employs careful research and understands the problems faced by government as well as business.



CAMPAIGN for FREE ENTERPRISE
A project of the U.S. Chamber of Commerce

- Get Involved
- Voices for Jobs
- Center for Entrepreneurship
- About the Campaign



To Create Jobs, Unwieldy Regulations Need to be Tamed

By: | posted at 11:17 am on 10.21.11

Editor's Note: This guest post is written by Tom Collamore, U.S. Chamber of Commerce senior vice president of Communications and Strategy, and originally appeared in the [Washington Post](#).



If lawmakers are serious about creating jobs, then reforming the process by which the federal government issues rules and regulations should be at the top of their to-do list.

There are about 180,000 federal regulations on the books costing Americans \$1.7 trillion a year in compliance costs. Small businesses, the nation's primary job creators, bear a disproportionate share of this burden. According to a report issued by the Small Business Administration last year, small businesses face an annual regulatory cost of \$10,583 per employee, more than a third higher than costs borne by larger firms.

More burdensome regulations are coming fast and furious. The Dodd-Frank Act brings an onslaught of new regulations—250 are required under the law and another 188 are completely up to the discretion of regulators. The health reform law, if fully implemented, could create 159 new agencies, commissions, panels and other regulatory bodies. The Environmental Protection Agency is working on more than 100 new rulemakings, 30 of which will cost the economy \$100 million or more—each. The resulting uncertainty is keeping severely needed capital on the sidelines and out of the markets as anxious businesses wait to see what regulators will do next.

Few disagree that smart and effective regulation is necessary in a healthy, modern economy. However, few oppose the additional need to have a better process for evaluating and promulgating new regulations. This includes more increased

Influence on government policy

Sources of influence

Think tanks



TAXES ARE NOT TOO LOW It's the Spending, Stupid

Tax Hikes Can't Fix the Deficit

- Current Taxation:** In 2010, the federal government collected roughly \$2.2 trillion in total tax revenue. Income taxes accounted for \$900 billion of collections, or about 40% of all tax receipts. The federal government spent around \$3.5 trillion; the resulting deficit of \$1.3 trillion was made possible by borrowing.
- Covering the Deficit:** If Congress, rather than borrowing or cutting spending, raised income taxes by the \$1.3 trillion necessary to pay for 2010 deficit spending, it would need to more than double income tax collections. In fact, income tax revenue would need to increase by 146% to cover the overspending.
- Government Spending Hidden from Taxpayers:** The future tax burdens created by this level of borrowing and spending is frightening. If Americans knew the level of income taxes they would have to pay in the not-too-distant future to cover current and future federal overspending, Tax Day would be even more alarming.

President Obama's Tax Hike Plan

- Tax, Tax, Tax:** Rather than seriously address out-of-control spending and entitlement reform, President Obama is once again proposing major tax increases to help pay for his reckless spending habits.
- Tax the Rich?** If Obama convinced Congress to simply tax small business owners and investors who make \$250,000 or more per year to pay off the deficit, their rates would have to rise to levels that are not even possible. The top two rates would need to rise to 132% and 142%, which is, of course, more than they earn.
- Killing Economic Growth:** Moreover, it is impossible to get even close to 100% and still raise federal revenue because businesses, workers, and investors would simply stop producing, working, and investing as the government came close to confiscating almost every additional dollar they earn. Much of their economic activity would be driven underground.
- Spent More, Tax More:** In his recently released budget, President Obama proposes to keep deficits at unsustainable levels throughout the 10-year window. Income tax rates would have to remain nearly 50% higher than current levels through 2021 across the board to close the gap without cutting spending.
- An Unsustainable Path:** According to the Congressional Budget Office, if Congress enacts Obama's 2012 budget, interest payments on accumulated deficits will total \$931 billion in 2021 alone. That would account for 29% of all tax receipts. Combined with spending on other mandatory programs like Social Security, Medicare, and Medicaid, 95% of all tax revenues would be spoken for before Congress can allocate funds to national defense or any other essential function of government.

Obama's Tax Hikes Are Not the Answer

- Tax Hikes Won't Fix the Spending Problem:** Raising taxes in the face of a spending crisis will not solve the problem as entitlement and interest spending continues to balloon out of control. Tax rates would have to be perpetually raised to keep pace.
- Cut Spending:** Congress and the President must cut spending, and they must do so soon—before interest expenses and entitlement spending take off.
- Stop Taxing Our Future:** It is time for Congress and the President to stop the current trajectory of massive spending and borrowing and be honest with the American people about the hidden deficit taxes that they are asking them to pay in the future.

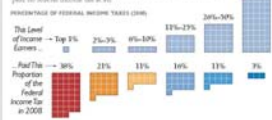
Fact Sheet #53

For more information, please visit: www.heritage.org

April 15, 2011

Top 10 Percent of Earners Paid 70 Percent of Federal Income Taxes

Top earners see the brunt of our tax increases, but the U.S. tax system is already highly progressive. The top 1 percent of income earners paid 38 percent of all federal income taxes in 2008, while the bottom 50 percent paid only 3 percent. Forty-one percent of U.S. households paid no federal income tax at all.



American Enterprise Institute for Public Policy Research

The Consumer Burden of a Carbon Tax on Gasoline

Kevin A. Hassett
American Enterprise Institute

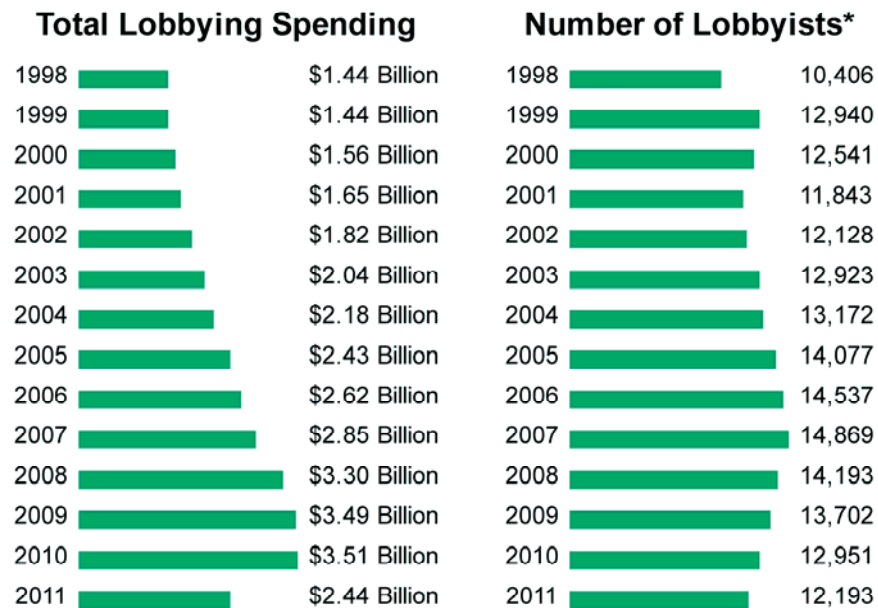
Aparna Mathur*
American Enterprise Institute

Gilbert E. Metcalf
Department of Economics
Tufts University
and
National Bureau of Economic Research

Influence on government policy

Sources of influence

Lobbying

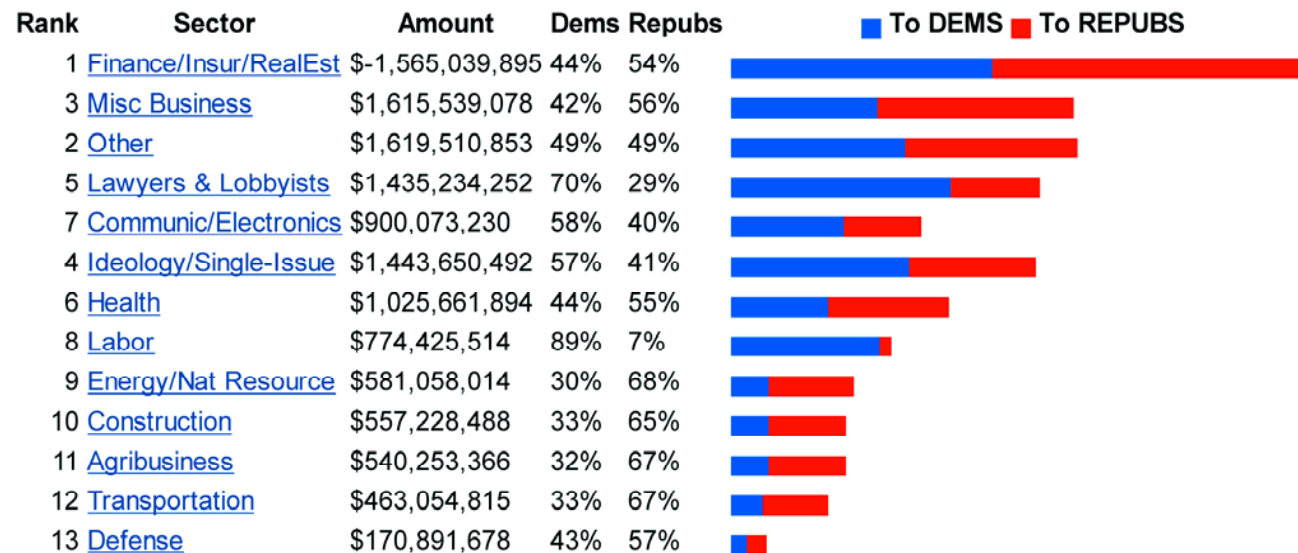


NOTE: Figures are on this page are calculations by the Center for Responsive Politics based on data from the Senate Office of Public Records. | 2011

Influence on government policy

Sources of influence

Campaign contributions



METHODOLOGY: The numbers on this page are based on contributions from PACs and individuals giving \$200 or more. All donations took place during the -1-All election cycle and were released by the Federal Election Commission .

Feel free to distribute or cite this material, but please credit the Center for Responsive Politics. For permission to reprint for commercial uses,

Influence on government policy

Sources of influence

Representatives in key government positions



Influence on government policy

These efforts seem to have had an impact, with more policy changes and policy drift favoring firms instead of ordinary Americans

Deregulation and inadequate oversight of finance

Slowdown in social regulation

Very limited progress in altering energy strategy

Lower taxes

Little improvement in the public safety net

No help for unions

Influence on government policy

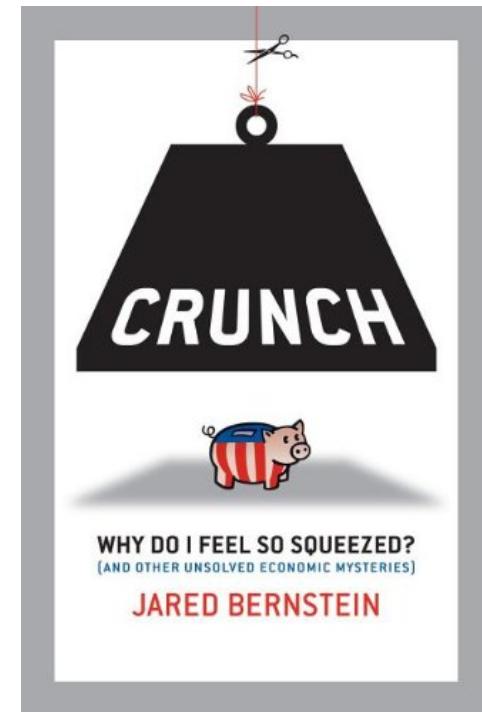
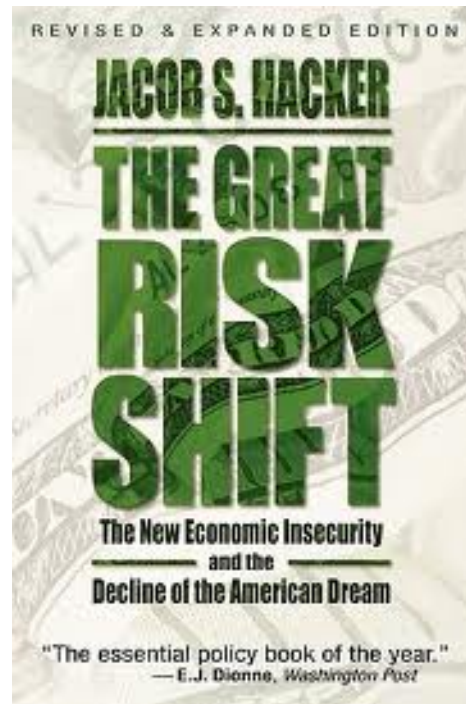
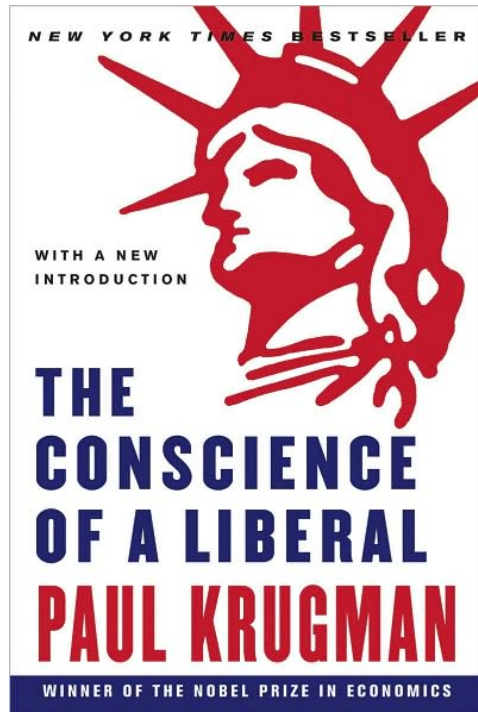
Consequences for Americans

Shift of responsibility for economic security to individuals

Rising income inequality

Influence on government policy

Consequences for Americans

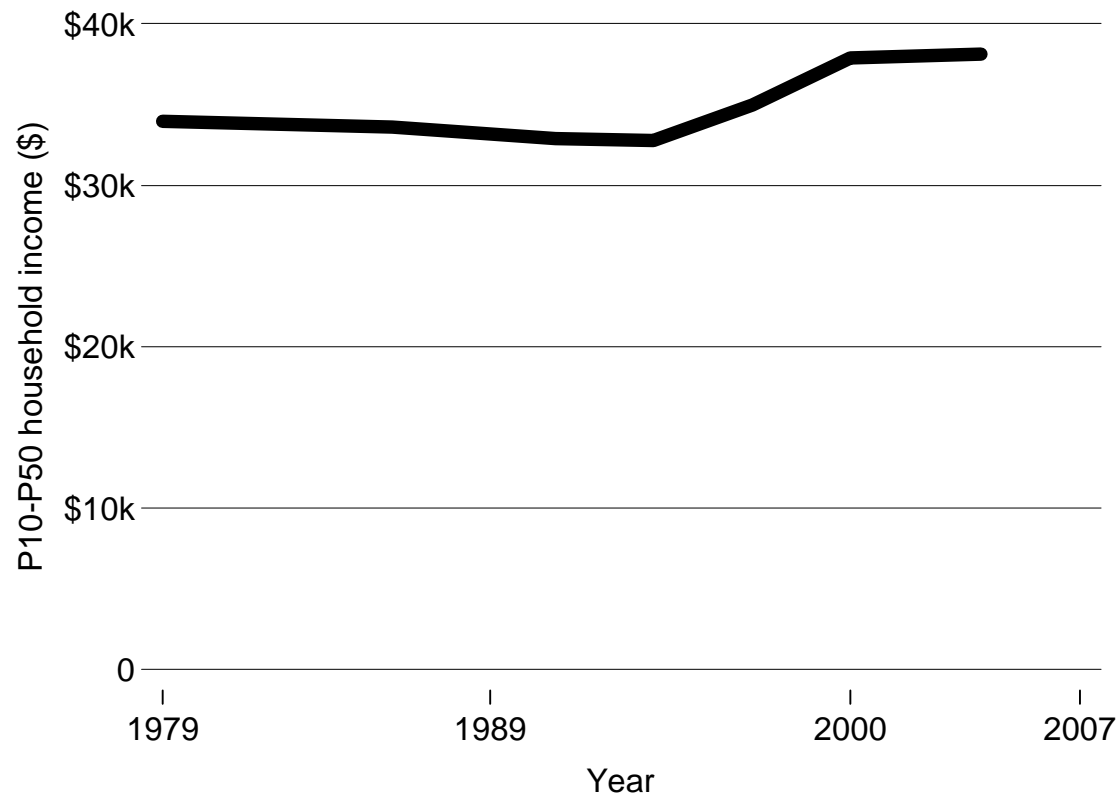


The longer-term economic problem

The longer-term economic problem

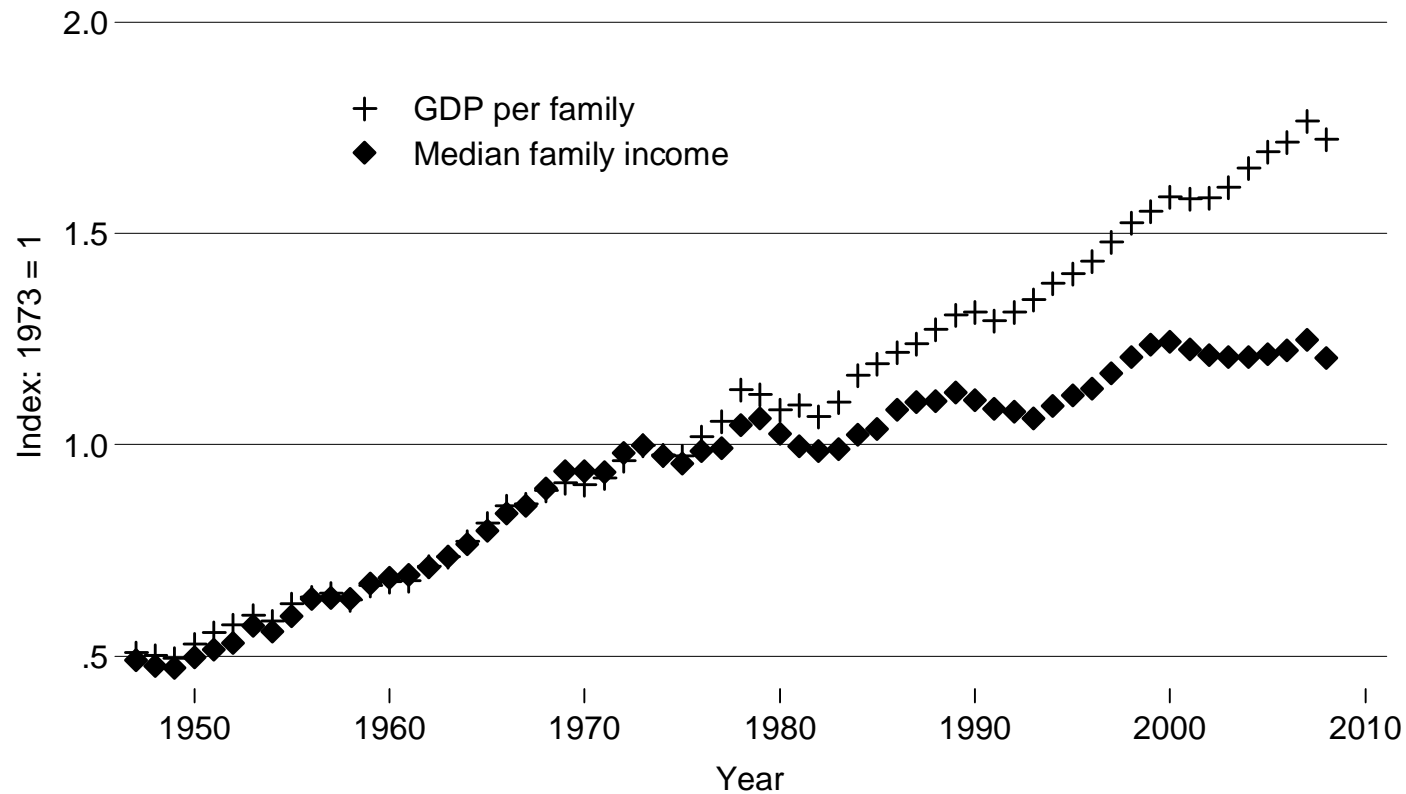
Slow income growth for the bottom half

Slow income growth for the bottom half



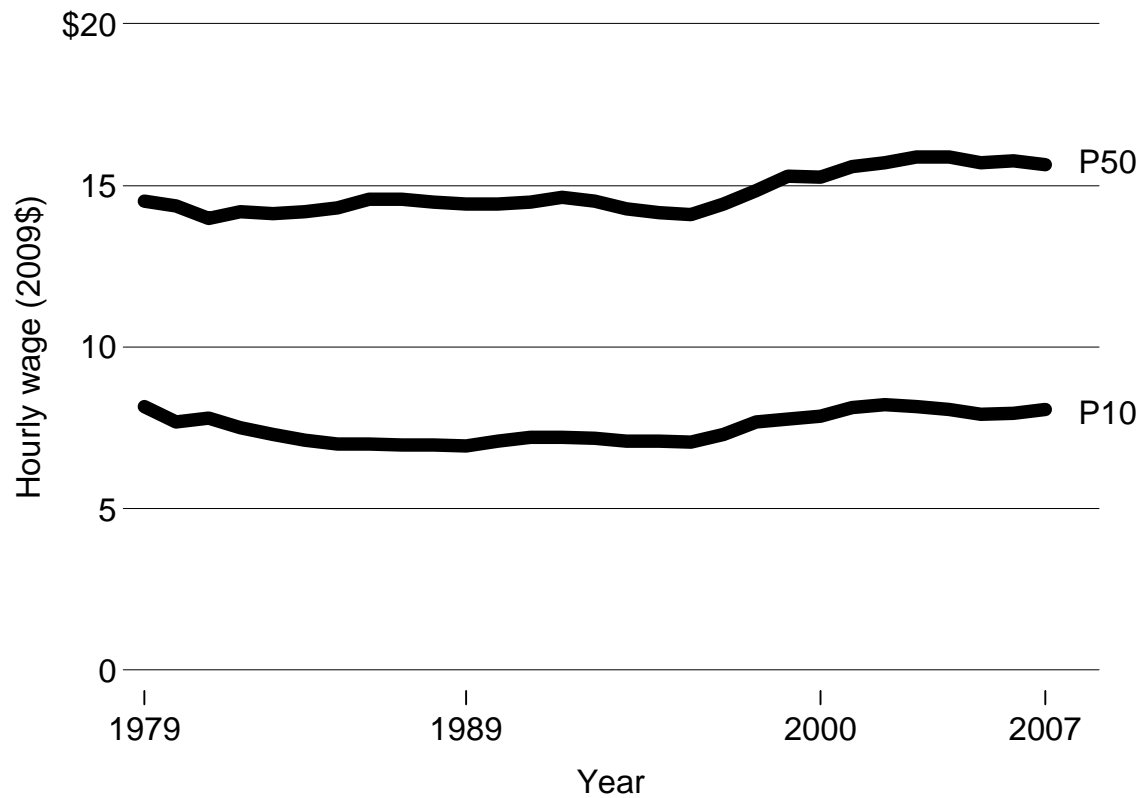
Average inflation-adjusted posttransfer-posttax income for households between the 10th and 50th percentiles of the distribution. Income is adjusted for household size; the figures shown are for a household with four persons. Data source: Luxembourg Income Study Database.

Not because economic growth has been slow



Inflation adjustment for both GDP and family incomes is via the CPI-U-RS. Data sources: Bureau of Economic Analysis; Census Bureau.

It's due mainly to stagnant wages



Inflation-adjusted hourly wages for full-time year-round employees at the 10th and 50th percentiles of the distribution. Data source: Economic Policy Institute, using data from the Current Population Survey (CPS).

It's due mainly to stagnant wages

Why no growth of wages?

Corporate governance

Competition

Computerization

Globalization (trade, direct investment, immigration)

Shift from manufacturing to services

Pay for performance, winner-take-all

Weakened unions

These would be obstacles to wage growth even in the absence of growing corporate influence on government policy

Is there a way out?

Where will income growth for bottom-half households come from?

Wages?

Employment?

Something else?

Wages?

I'm skeptical that wage growth will return

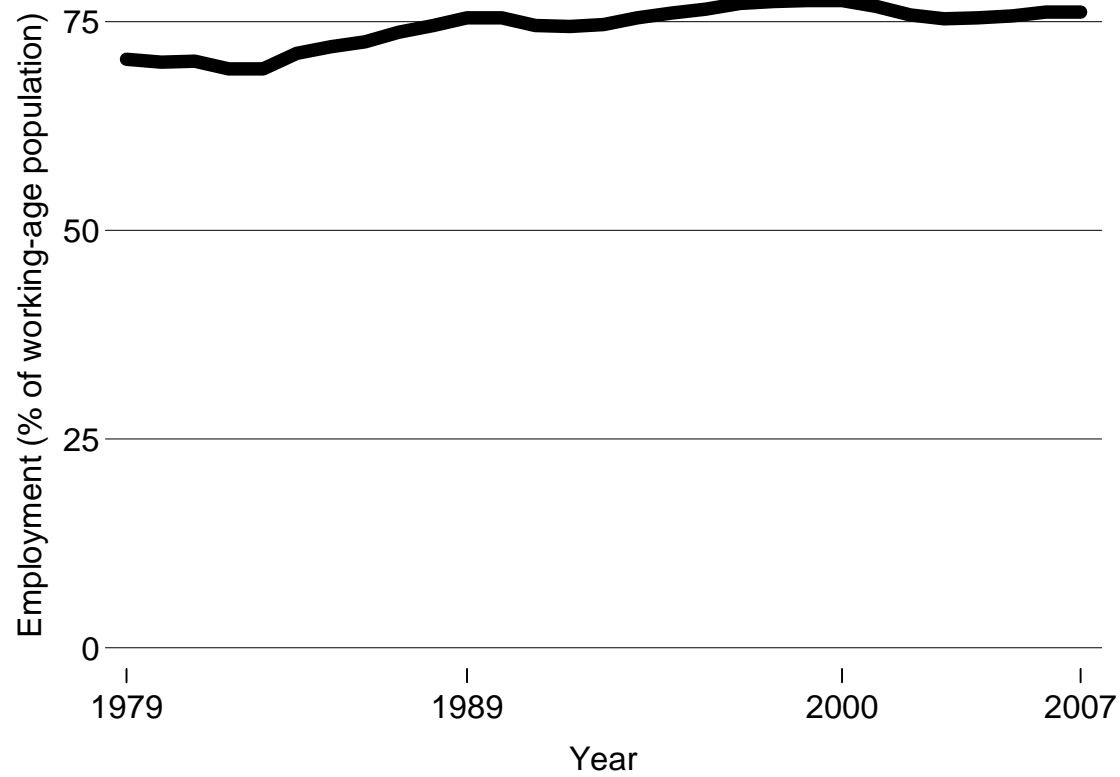
Employment?

We've pinned our hopes during the past generation on an employment solution

It hasn't worked

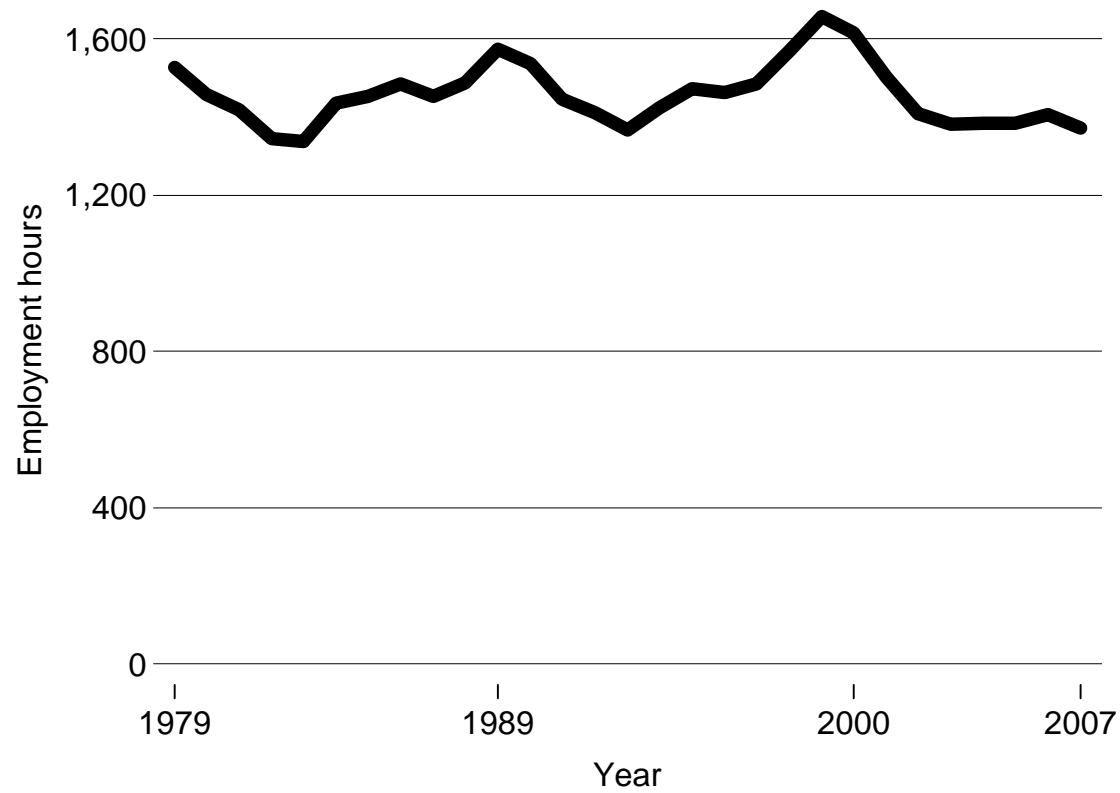
And what happened during the 2000-07 business cycle (*before* the crash) suggests reason for pessimism going forward

Employment?



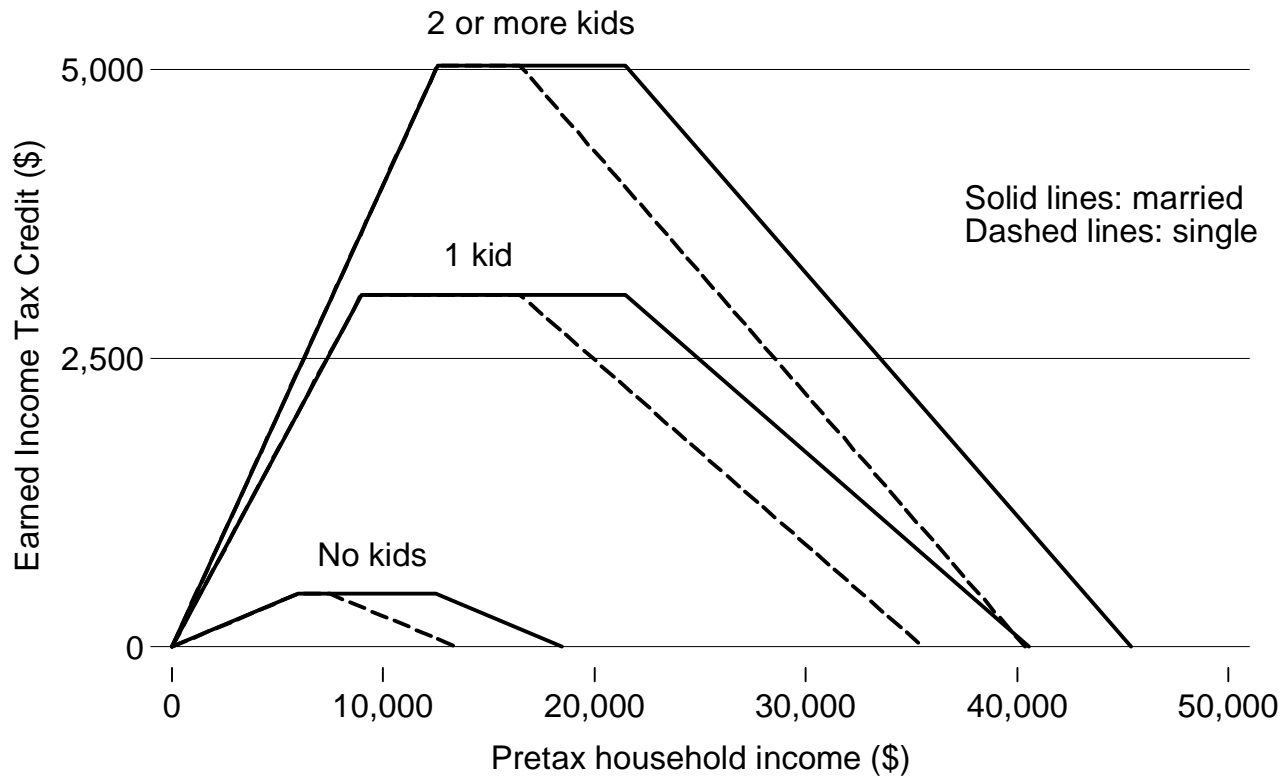
Employed persons as a share of the population age 25-64. Data source: OECD.

Employment?



Average annual employment hours in working-age households in the bottom quartile of the income distribution. Data source: Keith Bentele calculations using CPS data.

Something else? An enhanced EITC



Earned Income Tax Credit as of 2010. Data source: Tax Policy Center.

Something else? An enhanced EITC

Make it a full-blown middle-class earnings subsidy by extending it higher in the income distribution

Increase the benefit level a bit

Index it to average wages so that it rises in sync with economic growth

Summary

Summary

Most of the worry about the impact of big business in America has focused on two acts of (apparent) commission

- The 2008-? economic crisis

- Growing business influence on government policy

I'm more worried about a development caused mainly by a confluence of structural changes in markets

- Slow income growth for the bottom half of the population