

Fixing the bailout scammers: The Ten Percent Solution

 rwer.wordpress.com/2020/05/06/fixing-the-bailout-scammers-the-ten-percent-solution

Dean Baker, May 6, 2020

The pandemic crisis created a rare economic opportunity. In effect, the whole economy was thrown up for grabs, with the winners and losers determined by who had the political power to get a nice bailout. Needless to say, those who were already rich got the big handouts, those at the bottom got crumbs, if anything at all.

Suppose we had let the market work its magic on the airlines, on the hotel chains, the restaurant chains, the aircraft industry (i.e. Boeing), and on the oil industry. With few exceptions, the big actors in these sectors would all have been bankrupt. The companies would have been reorganized, with the ones that were otherwise viable being restructured. Debtors would take large haircuts only collecting a fraction of what they had been owed. Shareholders would be wiped out, losing trillions of dollars of equity. Many top executives would likely have been sent packing, and would no longer be able to count on paychecks in the millions or tens of millions.

Of course, things didn't turn out this way because almost no one in policy circles actually believes in the market. That's just something they tell children and liberal policy wonks. The people in power believe in using the government to give themselves as much money as possible. Usually they can do this through structuring the market so that money flows upward.

This is perhaps most clear in the case of government-granted patent and copyright monopolies. These government-granted monopolies in areas like prescription drugs, medical equipment, software, pesticides, fertilizers and other items likely transfer more than \$1 trillion a year from the pockets of ordinary people to those who own these monopolies. Over the last four decades these monopolies have been made longer and stronger, with almost no one paying attention, in spite of the huge amount of money at stake.

It is easy to point to market structuring in other areas, most notably finance and corporate governance, which have allowed for the accumulation of great fortunes at the expense of the rest of us. Again, the rule changes that allow for massive upward redistribution were mostly done with little public attention, even though large amounts of money were at stake.

I go through these issues in more detail in *Rigged* [it's free], but the point is simple: the rich have structured the market in ways that hugely increase their share of income. They pretend that this was just a natural market outcome. Many liberals accommodate this

fiction, complaining that conservatives are “market fundamentalists” who dislike government.

Anyhow, the bailout from the pandemic required surrendering the illusion. The industries that were hardest hit rushed to Congress and the White House and demanded, and got, handouts. The sums involved were enormous. The airline industry got \$17.5 billion (more than 10 million food stamp person years) in grants and another \$7.5 billion in government subsidized loans. The cargo airline industry got \$4 billion in grants and subsidized loans. The oil industry is getting a large bailout that is still be mapped out. Boeing was designated to get \$17 billion in grants and subsidized loans.

This is all in full public view. While many workers will be left unemployed, with meager unemployment benefits (once the initial \$600 a week bonus period ends), billionaire shareholders will have the value of their portfolios propped by the government. CEOs and other high level executives, who pocket millions or even tens of millions in pay annually, will remain secure in their high-paying jobs and will be able to maintain their lavish lifestyles as though nothing had happened.

Congress could have prevented this massive handout, either by requiring bankruptcies and supporting companies through the process, as happened with the auto bailout in the Great Recession, or by restricting executive pay and dividend payouts at companies that receive bailouts. As it turned out there were no effective restrictions imposed on these companies.

In fact, Congress decided to throw in a little something extra to help wealthy contributors get through the crisis. It put in a tax break for real estate investors, which will give \$170 billion over the next decade to people in the top 1 percent of the income distribution. The beneficiaries of this gift include people like Jared Kushner and the Trump family.

While serious people should do their best to monitor the bailouts and limit the corruption, we have to recognize that the rich have largely won this battle. They have managed to ensure that most of them will not only be kept whole through this crisis, many will come out ahead. In a period where millions are losing jobs, with many struggling to be able to pay the rent and get enough to eat, the rich have managed to feast off the public purse.

If we can't pull the rich away from the trough while Donald Trump is still in the White House, we can propose remedies that a Biden administration should pursue. There are two simple and easier ones: a special one-time tax for high income households and a corporate profit tax tied to stock returns.

For the one-time tax, we can add ten percentage points to the income tax for the top bracket of households for 2020 and 2021. (This would apply to income above roughly \$300k for an individual and \$500k for a couple.) This tax would be in addition to

whatever longer-term changes to the tax code that a Biden administration might want to make. This tax should apply to all income, including capital gains, both realized and unrealized.

The latter would be a new innovation that many tax analysts have advocated for some time. There is no obvious reason to allow someone to defer their taxes on capital gains just because they choose not to sell their stock or real estate. The I.R.S. can gain valuable experience in assessing unrealized capital gains. One obvious mechanism would be to assign a value based on the gains in comparable assets (e.g. a stock index or changes in real estate prices in the area of the property held). The difference between the tax liability for the actual capital gain and the imputed gain can be corrected at the time the asset is sold.

This one-time tax should raise more than \$350 billion a year which is a bit more than 1.5 percent of GDP or more than 200 million food stamp person years. In other words, it is real money, although a bit less than we would save if we had no patent monopolies on prescription drugs.

The other gift to the rich would be a 10 percentage point excess profits tax which would take the form of a tax tied to the returns on their stock. Since companies have gotten very good at hiding their profits from the I.R.S. this tax makes it easy for them. We simply tax away ten percent of returns to shareholders, either in the form of dividends or higher share prices, using the halfway point between the start of the year share price and crisis trough as a reference point.

This means that the companies can hide their profits wherever they want and it doesn't affect their tax liability, unless they also manage to hide them from their shareholders. In that case, the I.R.S. would have a powerful ally in collecting the taxes it is owed. With a market capitalization of U.S. corporations near \$40 trillion, if the stock gains under this formula average 8 percent annually over 2020 and 2021, it should net the government another \$320 billion for each of these two years.

These two fun fixes should go a long way towards taking back the money that we gave to the rich in the bailout. I usually don't look to taxes as the primary mechanism for addressing inequality, but rather restructuring the market so that it doesn't generate so much inequality, but when we are creating massive inequality through direct government transfers to the very rich, it is entirely appropriate to look to taxes to take this money back.

We also don't have to worry about the long-term impact of creating a massive tax evasion/avoidance industry since this is only a two-year story. We can still count on the rich to lie, cheat, and steal to get out of their taxes for these two years, but it doesn't make sense for them to make long-term plans to avoid a one-time hit to their income.

I would not count on a Biden administration to be anxious to take back the bailout loot secured by the rich and powerful, but it is possible it can be pressured in this direction. The first step is to put the menu on the table.