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America's Long Slope Down

by **David Cay Johnston**

A broad swath of official economic data shows that America and its people are in much worse shape than when we paid higher taxes, higher interest rates and made more of the manufactured goods we use.

The numbers since the turn of the millennium point to even worse times ahead if we stay the course. Let's look at the official numbers in today's dollars and then what can be done to change course.

First, incomes and jobs since 2000 measured per American:

Internal Revenue Service data show that average adjusted gross income fell $2,699 through 2010 or 9 percent, compared to 2000. That's the equivalent of making it through Thanksgiving weekend and then having no income for the rest of the year.

Had average incomes just stayed at the level in 2000, Americans through 2009 would have earned $3.5 trillion more income, the equivalent of $26,000 per taxpayer over a decade. Preliminary 2010 data show a partial rebound, reducing the shortfall by a fifth to $2.8 trillion or $21,000 per taxpayer.

Wages per capita in 2010 were 4.3 percent less than in 2000, effectively reducing to 50 weeks the pay for 52 weeks of work. The median wage in 2010 fell back to the level of 1999, with half of workers grossing less than $507 a week, half more, Social Security tax data show. The bottom third, 50 million workers, averaged just $116 a week in 2010.

Social Security and Census data show that the number of people with any work increased just 1.5 percent from 2000 to 2010 while population grew 6.4 times faster. That's why millions of people cannot find work no matter how hard they try.

In May, nearly 23 million workers, 14.8 percent, were jobless or underemployed, the Bureau of Labor Statistics reported. At shadowstats.com, a website dedicated to exposing and analyzing flaws in government economic data, economist John Williams also counts people who have given up hope of finding work. His figure for May brings the total to almost 30 million people, one in five.

PRESSURE ON WAGES

An economy with many millions more workers than jobs puts downward pressure on wages, especially for those without highly developed skills.

Now let's look at debt per American since 2000 using Federal Reserve data:

Mortgage debt grew 51 percent through 2010, even though incomes and wages fell, which should result in steady or lower housing prices, not higher prices.

(In 2011, as banks foreclosed on more homes, mortgage debt per capita declined, but was still 42 percent greater than in 2000.)

Consumer debt was virtually unchanged, at nearly $8,300 in 2010, helping explain weak sales of automobiles, furniture and appliances.

We need to recognize that the tax cutters were snake oil salesmenNow how about trade? Exporting more than we import creates jobs and riches.

From 2000, the year before China joined the World Trade Organization, to 2011 imports from China grew 62 percent faster than exports to China, Census data show. The annual trade deficit soared to $302 billion from $112 billion.

U.S. exports to China in 2011 ($106 billion) were smaller than US imports from China back in 2000 ($133 billion), showing the lopsided nature of trade with China, where workers lack rights, safety rules are minimal and pollution rampant.

Some 56,000 American factories have closed since 2000, as jobs and the knowledge that goes with those jobs moved to China.

Trade with China has destroyed every 55th job in America, nearly 2.8 million positions, analysis of government data by Robert E. Scott of the Economic Policy Institute shows. That equals wiping out every job in the greater Philadelphia metropolitan area. Nearly two million of those jobs were in manufacturing, Bureau of Labor Statistics and U.S. International Trade Commission data show.

SHRINKING TAX REVENUE

And what of taxes? The 2001 and 2003 tax cuts were promoted as keys to prosperity. Now Mitt Romney, virtually all Republicans and a fair number of Democrats say more tax cuts will make us prosper. President Barack Obama wants to cut corporate tax rates by a third.

Again, measured per capita, the IRS data show a pattern of shrinking numbers, with modest upticks in 2010.

Individual income taxes in 2010 averaged $2,995, down $1,654 or almost 36 percent from 2000. Use 2001 as the base year — because it was both a recession year and the first year of the temporary George W. Bush tax cuts — and in 2010 per capita income tax revenues were down one third.

In 2011, as the economy improved slightly, income tax revenues rose, but were still 26 percent smaller than in 2000.

The bottom line: less income, hardly any more jobs, sharply increased mortgage debt and Washington ledgers awash in red ink as voters are asked to endorse even more tax cuts.

How many years of evidence does it take to establish that a policy worked or failed?

Will continuing our current tax, credit and trade policies produce favorable results in the future? Will they produce higher incomes?

My reading of this and tons more data is that the Bush tax cuts utterly failed, the Fed's artificially low-interest rate policies under presidents Bush and Obama do far more damage than good (especially to savers), and that the United States is harmed both by the imbalance in the trade relationship with China and scores of trade agreements with South Korea and other low-wage countries that are deeply flawed at best.

We need to recognize that the tax cutters were snake oil salesmen, the Federal Reserve an enabler of damaging debts and that bilateral trade deals are written of, by and for global financiers, not workers.

To paraphrase the Huey Lewis song, we need a new policy.

David Cay Johnston is the author of **Free Lunch: How the Wealthiest Americans Enrich Themselves at Government Expense (and Stick You With the Bill)**.

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