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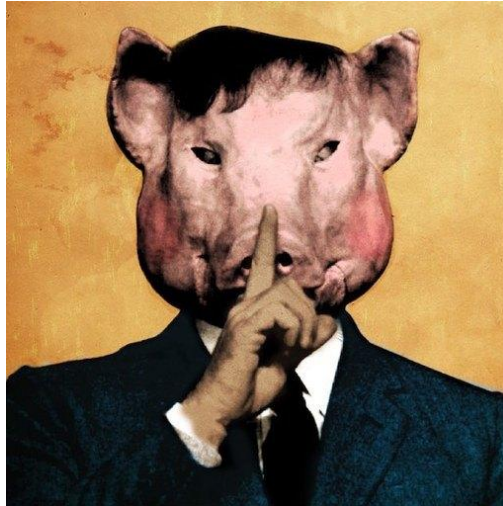
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Trump's Tax Plan Helps Wall Street Not Main Street

By Michael Hudson - Sharmini Peries
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Sharmini Peries: A general consensus is emerging that Trump's tax plan, which he presented last Wednesday will benefit mostly the country's upper classes and corporations. In fact the only people that got a tax increase are the poorest taxpayers. A quick scan of even business press

headlines will reinforce what I'm saying. For example, Bloomberg writes, "Tax reform could open a huge loophole for wealthy Americans", and the conservative magazines National Review has a headline that reads, "Congressional Republicans tax plan isn't great for Trump suburbanites." However, Trump himself promised on Wednesday that he and the rich generally would not benefit from this plan. Here's what the President said.

Our framework includes our explicit commitment, that tax reform will protect low income and middle income households, not the wealthy and well-connected. They can call me all they want, it's not gonna help. I'm doing the right thing, and it's not good for me, believe me.

Joining us to analyze what Trump's tax plan would mean for us is Michael Hudson. Michael is a distinguished research professor of economics at the University of Missouri, Kansas City. He's the author of several books, and the most recent among them is J is For Junk Economics...

Let's cut to the chase here. Everyone seems to agree that this tax plan will benefit only the rich. Give us a sense of your main points of why you want to contest this tax plan is beneficial for all.

Hudson: Sure. It should be called the Leona Helmsley tax plan. Only the little people will pay taxes. But about the loopholes. The interesting thing is Trump said he wasn't going to gain a penny, and he may have been telling the truth. That would be true if he's already paying zero income tax. So, his income tax rate is going to go from zero to zero.

That's about the same for a lot of the biggest corporations in America. Apple, Google, Amazon, these companies that have been taking all of their profits abroad, trillions of dollars, supposedly, that they're holding abroad. They haven't paid any U.S. taxes on this money, because they've held them nominally in a teeny little office in Ireland, or the Cayman Islands, claiming that they have to pay hardly any income tax at all.

The misrepresentation here is that Trump says that he can now bring all this money back from these offshore enclaves and tax avoidance zones. The reality is the money's never been *in* these zones. It's been in America all the time. Apple, Google and rich real estate companies simply hold all this "foreign" money in an American bank, but in the name of the foreign affiliate, an office registered in Panama or some other offshore enclave.

So, there'll be zero effect on the balance of payments, but it will lock in their zero rate, enabling them to have avoided taxes for over a decade. I think 2004 was the last such tax holiday. They'll bring them all back now, without having to pay much tax at all.

Peries: *Michael, another method that wealthy individuals and companies can use to avoid paying taxes is deducting investment expenses. Tell us how this works.*

Hudson: If you look at the real estate sector's loopholes, since World War II the National Income and Product Accounts (NIPA) report that real estate is hardly paying any income tax at all. If you own a building and you're an absentee owner – not living there, not a homeowner, but absentee owners – they avoid paying any income tax because they don't earn any reportable income. They pay interest, which is a tax-deductible expense, or they pretend – under the

accounting rules that their lobbyists have bought from Washington – that the buildings actually are depreciating in value, even while the price is soaring. It's going way up, they don't have to pay an income tax. Then finally, when they die neither their estate nor their heirs have to pay any capital gains. The heirs get it without having to pay any tax.

The richest people have to pay an estate tax, but that's being knocked out also. I think that everybody, as you pointed out, who've looked at the tax plan, says, "All the benefits are at the top. Where's the benefit for the low-income people?"

Well, the wage earners are going to have to pay more tax. The minimum tax rate is actually raised from 10% to 12%. Also, people who live in Democratic states, New York, New Jersey, Maryland, California and so forth, will not be able to subtract the state and local taxes that they've been deducting from their taxable income all these years. So, the tax rate for wage earners, for people who actually have to file tax forms and declare an income, is actually going to go up. The economy is going to be made poorer.

Peries: Now, Trump and his supporters argue that tax reductions will make the U.S. more competitive, and it will lead to more investment. In an earlier interview that we had with Dean Baker, he points out that historically this has not happened when taxes on corporations and on the wealthy were reduced. So, if it does not lead to more investment, what do the corporations do with this additional untaxed income?

Hudson: They're going to do the same thing they've done with 92% of corporate earnings in the last decade. They're going to pay it out as higher dividends, pushing up the stock price, and most of all they're going to use the money for stock buybacks. They're going to buy back their stocks to raise the price. They are not going to invest.

The reason you would invest would be to sell more goods to the market and expand the economy. But most corporations, and certainly Wall Street, know that the game is over. The economy has not grown since 2008, except for the financial sector and the real estate sector. That is, except for the richest 5%. For 95% of Americans the economy has shrunk, just like it's shrinking in Europe.

Corporations know this and say, "There's only one thing we can do, now that the game is over and the economies are shrinking. We're going to take the money and run. We're going to pay all the tax cuts we get and give it to our stockholders."

Peries: What are the consequences of this for us?

Hudson: It means the class war is back in business with a vengeance. But I don't think it's going to go through. There is no way that a group of Republican senators are really going to commit political suicide by actually voting for this plan, any more than they voted for Trump's medical health plan revoking Obamacare.

What this is really doing politically though, is driving a stake through the heart of the Democratic party. The Democrats are so sure that the kerfuffle over this tax plan is going to

backfire against the Republicans that the knives are out. They're fighting like they've never fought before against the supporters of Bernie Sanders, against Elizabeth Warren. The Wall Street/Hillary, wing of the Democratic party says, "Now we're going to win the election. We don't need Bernie supporters. We don't need the working class. We can form an even more right-wing party than Hillary had and what her program was."

Obviously, the Bernie supporters and the bulk of the Democratic party are not going to go along with the heads of the national committee. It's going to probably split the Democratic party, because the way in which politicians are opposing the tax plan is on the ground that it's going to vastly increase the budget deficit if it passes. Just like the Reagan and Bush tax cuts quadrupled the national debt. So the Democrats who are arguing against the Trump plan are budget hawks. They're saying, "A deficit is bad."

Now, as you know from the people you have on this program, like my colleague Bill Black and the Modern Monetary Theorists, were all in favor of having the government run a budget deficit if it pumps money into the economy, if it leads to more investment, if it employs more people. But in this case the deficit *isn't* going to pump money into the "real" economy. It's only going to pump money into Wall Street, and the money is going to be used just to push up stock prices, push up bond prices, and push up real estate prices and trophies for the rich. It's the opposite of the kind of deficit that we've been urging all along.

So, you're going to have a lot of junk economic theories on the Democratic side opposing the junk economic theories on the Republican side. They're claiming that this is trickle-down economics and supply-side economics, but the people who originally introduced supply-side economics under Reagan, people like Paul Craig Roberts, have denounced the Trump plan, saying, that this is a travesty of supply-side economics, because all it does is supply more money to the richest 1%. It supplies more money to Wall Street, not to the economy at large. That's what really should be brought out.