

>> From WXXI News, it's 1370 Connection.

[Background Music]

>> I'm Bob Smith. And my guest this hour David Cay Johnston, won the Pulitzer Prize for his reporting on the inequities of the American Tax System for the New York Times. And he's hit the bestseller lists twice exposing the way the wealthiest and the best connected interest and individuals exploits the system and gets special treatment for our level of government, the tired working American expense. He's documented it all with his book's pre-launch in "Perfectly Legal." He's gonna speak this evening at RIT's Ingle Auditorium [inaudible] that part of the Caroline Warner Gannett lecture series is joining me now in studio. David, welcome back. Good to have you with us.

>> Well, thank you very [inaudible].

>> Policies to loopholes, you've described in your books and on the pages of the Times seemed outrageous when we've talked about them over the years, in light the how the whole system came down crashing around us between 2007 and 2009. First of all, do they seem even more so now for the role they may have played in helping pull as down?

>> Oh, absolutely. You know, there were some of us who warn about---not exactly what would happen, but that we would have a collapsed 'cause we were doing two things. We were artificially inflating assets and at the same time we were removing all of the controls on banking. You know, I teach the law of the ancient world now to law students and graduate business students of Cherokees. And one of the lectures we have is about the history of regulating banking. We've always regulated banking. This idea that you're gonna let bankers take everybody's money and do anything they feel like with it is crazy, as we've seen and it's made us all poorer.

>> And of course, it's basically turning the entire market into a giant casino except that nobody comes around giving you free drinks?

>> Well, actually we're giving free drinks to these guys. You know, but for the generosity of congress and taxpayers, Golden Sox would certainly be in trouble, maybe that out of business. City group would be--have been taken over. Bank of America would have been taken over. And you see these firms continuing to pay these incredible bonuses when they are--have been shown at least in the recent years to be none on the business of wealth creation but wealth destruction.

>> Or at least a circular system in which wealth gets created simply by trading paper around in a smaller circle of friends. In an artificial way as we beat each other up.

>> That's right. And you know, we live in a society were FIRE, Finance, Insurance and Real Estate, used to be 16 percent of the profits in this country. It's now more than 40 percent. That means we have far less of our income coming from actually making things and providing services. Then function of banking insurance after all is to finance these other activities and to ensure against the risk of things that happen you can't predict like fires and piracy not against of the sale of products that--on the one hand Golden will sell to say,

state pension plans and say, "Oh, this will make a lot of money and reduce the burden on the taxpayers," and then they would go short the very same product that is place a bet that it would lose money and they profited both ways. They sold it, you and I as taxpayers and then when it failed they made money of its failure.

>> Is it possible that they selling short themselves at this point?

>> Oh, no, no, no, no. You know, great line in the movie of trading places Eddie Murphy comes of the street and comes into this Philadelphia trading house and they're trying to explain to him how trading works and how they make money whether a commodity goes up or down and Eddie Murphy looks at this two old guys and goes, "Oh, I get it, use bookies."

[Laughter]

>> Well, it seems that way doesn't it? But when you're come right down to it, is our trouble really at the root, the result of having got a way from an economy where you made money, you made a profit but either making something for somebody that they wanted or doing something for somebody that they want it done and got to this artificial trading of paper in a small circle of friends and beating each other up and continuing the play the sort of Ring Around the Rosie musical chairs game until the music stops?

>> Well, think back Bob to 1981, when we made this major changed in our economy and what happened? It's started a little bit in the late 70's but 1980 with the election Ronald Reagan really marked changed. We have instituted all these new rules based on the theories of the Chicago school. Well, I'm not an economists, I attended that school. At the time Milton Friedman was there.

>> And the facts are in now they show that this was a spectacular mistake. In Chile where the whole congress basically redone by the Commerce at the University of Chicago, they've had more volatility, they've had enormous danger. And interestingly someone, Naomi Klein, just to the piece pointing out that the one thing that didn't happen was when the earthquake hit. Lots of people didn't die because not during the regime promoted by the Chicago school but before that, they put is serious building codes that took in the account the likelihood of earthquakes. Well we live in the county now where we haven't been reinvesting in the infrastructure. We're going to have eventually some disaster where a big dam collapses and kills a lot of people. We've already have a couple of highway bridges collapse. We will have a whole series of problems in front us because we're nit investing in the things we need for the physical economy. We're just focused on this paper economy that Wall Street profits of 'em. Now of course, the infrastructure part of the Bailout at the Stimulus Package, that was suppose to be at least a baby step in that direction. But you're saying essentially that they maybe Paul Krugman was right and we didn't go far enough, should have done more.

>> Oh we did. I mean classic economic theory tells you how much we're going to have a loss and how much the government would make up for this. And we did far less plus 40 percent of Obama's first plan was tax cuts for business. Well first of all, a tax cut is inherently anti-stimulus. It is in fact a form of savings. Secondly, and I say this is someone who's part of a business with about 25 employees, I don't hire an additional worker to get a tax cut. I hire additional worker when I have demand where I need to put someone to work to serve that

customer. And what we've had is 30 years of supply side economics. And we haven't had demands side economics. So we're in a situation now from 2006 to 2007. The only people in America who's average income rose, statistically, were the 18,000 people who make over 10 million dollars a year. Everybody else's income went down. And from 2007 to 2008, we only have the preliminary data, but there was a huge drop in income in this country. We are on the wrong path. We are on a path that will make us poorer because we are not setting up methods to the people who invest long term for gains from productive assets. Not real estate. Not financial gains. But making things and providing real services. And we continue to borrow and expand rather than tax and expand to provide the basics we need. And one of the things you're seeing happened right now should be a terrible warning sign to assist. Look at what we're doing to education. We're closing schools. In California the, University of California, their crown jewel of education, they're raising tuition 32 percent, 32 percent. We should be investing in the most valuable asset we have, young minds. And instead we're disinvesting and why are we disinvesting? So that that narrow group of people at the very, very top can continue to pay very little in taxes and in many cases no taxes at all legally. So we can subsidize them. That's just crazy.

>> Should we then be doing a 180 in our policy and first of all downloading whatever tax cuts we do at the bottom end of the scale to get that money spent and second of all let the tax cuts of 2003, 2005 go, let 'em die?

>> Well the Bush tax cuts were all done through reconciliation. That's what we're talking what done with healthcare. So they're going to expire and there aren't the votes in congress to increase those taxes. And remember that's still well below the historic tax rates. So when we have our greatest economic growth in this country, we have much higher tax rates. We have economic competitors with higher tax rates who are doing better that we are. The average German worker now makes 25 percent more per hour than the average American worker. And so, we need to have our financial house in order. But we also need to remember that government should be doing certain basic things not handing over huge subsidies to Warren Buffet's companies and Donald Trump's companies and General Electric and others as we're doing now. Individual companies not the economy. And we need to be--have--we need a government that provides those things that grease the wheels of commerce. Infrastructure, research, education, civil, the elements of a civil society including courts. That's where we need to focus our attention then people have the freedom to create wealth and improve our economic situation.

>> Our number is 263-WXXI, 263-9994. I'm Bob Smith, we're talking with Pulitzer Prize-Winning Journalist David Cay Johnston talking with you on 1370 connection when you dial in or write into us and ask talk at wxxi.org or in studio email address. We have Bernard on the line. Hi Bernard, welcome you're on the air.

>> Hi Bob. Thank you for this guest. I really enjoy his books and I enjoy, if you will his thought process. I think he does a very good job explaining things. Unfortunately, and this is really my question. People don't seem to be listening. It seems to me that one of the basis of a market, market regulation is that it used to be anyway explained to me that people are fundamentally selfish and they'll do what's best for themselves. But that doesn't seem to be working. There's a book called "What's Wrong with Kansas" where basically the author I think his name is Frank, talked about how the people in Kansas were voting for things that we're fundamentally against their own benefits. And that seems to be one of my concerns. There was just a spokesman on to the American

banking association. And whenever she was asked a challenged question, her comment was, "We're a business. And that's what businesses do." And yet when you talk to the American consumers, it's--we're consumers which means we're suckers. We don't push back on people and we don't say, "We don't like what your doing and we're not gonna buy you product." Look at the people that are supporting for example the healthcare industry as if the health insurance company is a friend, it's on their side. So having stated my personal biases, is the consumer a big part of this problem either their not as selfish as they need to be or their smart as they need to be or their not willing to be? And I'd appreciate your input on this and thanks for your book and thanks for the show Bob. I'll take your comments off the air.

>> And thanks for calling in or maybe not as well informed as they should be because maybe a million people would read the New York Times at a given day but there are 299 million won't.

>> Well Bob, let me suggest that there are two numbers that are really crucial to understanding what's happened in America. Those two numbers are 1980 and 37. 1980 is the year that Mr. Reagan who was--were the 11 [inaudible] was a great leader and he changed this country. Took us on a dramatically different path from where we were. 37 is the medium age, half of all Americans, over 150 million Americans are under the age of 37. If you're 37, you we're born in 1973. That's all you've know as Reaganism. You we're born into a world of Reaganism. You think that's the way things should be because most of us are born to a world to think "oh well, this is how it is, that's how it should be." In fact, if you're under 50, so now we're talking two thirds of the population. That's all you ever know. And as a result, one of the amazing things I find in our [inaudible], many, many people, they feel powerless, they don't feel they can anyway be organized. And you and I are old enough to remember the '60s, empowerment was a big word.

>> Power to the people, yeah.

>> Power to the people and getting people organized to do things. But we have on a continuing basis you know radically reduced unions. And lo and behold, wages overall have fallen 'cause lots of people didn't belong to unions benefited form unions pushing wages higher. We have radically seen a radical drop off in people's involvement in churches. And a lot of lost of fundamental religious education, I've had numerous discussions of people, you know, who have told me particularly a man who sat down next to me in the airplane didn't know who I was and I have one of my books with me that, you know, this idea that Jesus is concerned with the poor, that's all false. That was the leftist brought that into the church. Jesus wants you to be rich. There're an astonishing number of people who believed that kind of nonsense.

>> I take it the verse about the camel and the eye of the needle and all of that. I take that he didn't get that part of the gospel.

>> Yes, absolutely, he didn't get it and he's not that unusual. There actually something called the prosperity gospel. And so, we live in a society now where we've created this idolizing worship of people just because they have money. Not because they have accomplished something. Not because they have done something significant but because they're able to spend in a way that we look and go "oh my goodness, can you imagine?" Well that's part of our fundamental problem. Our values have gotten out of line. I would argue with what's historically made us

well off. And we need to develop a society of providence where people think about the future. They don't borrow when they don't have to. They save. They behave prudently economically and they plan not the kind of culture we have right now.

>> Although there maybe some hope in that regard as the guest, Diane Rehm Show, who was also been a frequent guest on my program, Bob Manning, has mentioned people are starting to wake up to the fact that you cannot barrow your way in the comfort and manage to sustain it unless your fantastically lucky, most of us aren't going to be and you'd better start being a lot more prudent about it and working within the system to benefit yourself in the long term. The end of which of course means what we're doing right now, we're cutting up our credit cards at a record rip like you never seen before.

>> We are but it's going to take a long time for us to turn this and it's gonna require a national leadership that focuses us in another direction. And that focuses on the idea that people need to save and be prudent. Took us 30 years to get into this, we're not gonna get out of it in short run.

>> In other words, we've gotta be more like kind of our parents and grand parents in a way we're thinking about things.

>> Yes.

>> They had the right idea. Well, they got us into a good place. So we should see if we get ourselves back onto that good place again. 263-WXXI, 263-9994. Pulitzer Prize-Winning author David Cay Johnston, our guest this hour. We have Bill on the line. Hi Bill, you're on the air.

>> Okay, thanks. I wanna echo the last caller's comments. About Mr. Johnston, he's terrific. But here's my question. Mr. Johnston remarked on the California tuition going up for state schools in California. And in SUNY, in our SUNY system, we've seen state aid directly from the state to SUNY Universities and colleges going down. And as a result it's my understanding that tuitions have been not raised for SUNY School. So here's my question, is it true or is it not true that while the parents think, "Oh, golly, I've got to pay more tuition so to offset the cost of SUNY Buffalo or Bradford, that fully 80 percent of that tuition increase does not going into the university or college but it's going into the general state coffers and that people don't know that 100 percent of their tuition--is that true or not true?

>> You know, I don't know enough about the state budget to tell you whether that's true. I have read the same thing. But without question in New York as would almost every other state we have been significantly raising tuition. The average income of the bottom half of New Yorkers in their households is around 20,000 dollars a year. That's the average of the bottom half. And yet tuition for you--to go to a state college for years would--assuming you live at home is about 10 or 12,000 dollars. Clearly, large numbers of people can't afford that. Given the fact that the world has becomes so much more complicated. That so much more education is needed for to be economically competitive. This is strikes me as a crazy policy. I mean we're gonna start now charging tuition for high school and junior high school and kindergarten.

>> But if I could just interrupt. I guess my question and my point is, if parents are being told we're raising tuitions then they're assuming that the

money they're paying in this extra tuition goes to offset college cost. But if the state is skimming off 80 percent of that shouldn't parents be utterly outraged that they've been bamboozled. I think I'm paying more money to help my kids college education and really am paying more money 80 percent of which is going to this baloney that the state legislators and the governors spends. And I guess if that's true then that should be huge, huge storm of protest. So that's my question.

>> Yeah Bill. If in fact it's true and I just I don't know 'cause I haven't looked at the state budget on this and the documents. I've just read news accounts that asserted this. Yes, of course peoples should be very upset about that. And I think the question they should be asking is, "Why we aren't lowering tuition particularly for those students who perform academically?" So that we get the best and the brightest that make our future wealthy.

>> And you know there are talents in all sorts of socioeconomic classes and just because the kid can't afford 10,000 dollars in state tuition doesn't mean that kid isn't is as bright as the kid who wants to go to Harvard and his parents can afford it. Thank you.

>> Well the awful part of it, I do--Thank you for calling. The awful part of it is if your kid racks up the grade point average and the board scores to get into two places, Harvard or Cornell? Guess what, if your family makes 78 grand or less, free. No loans, no nothing, free ride.

>> New policy.

>> Yeah.

>> Brand new policy.

>> But you know what? If you earned fortunate enough to have had a good day when you were taking the SAT's, what happens to you?

>> Right, well we--the system for picking for people is certainly far from perfect. But one of the things the caller is right about we need to remember and I'm a good example to this, you know, all the brains are not well to do households. And what we need to do is developing brains because that's the future, that's the key. All of human history has been the development of ideas and concepts that came up because of brain power. And what are we going to do to nurture that if we're not going to make it available to everybody who can really take good advantage of it. We're in trouble aren't we?

>> Yup. 263-WXXI, 263-9994, got time for one more call before the break. And hi Phil, you're in. Welcome to the show.

>> Hi, good afternoon. I have two questions for your guest. And I'd like his opinion on both of them. If they're the same please states off their different. Please state so and the reason why. First is, what of all the major governments in the world, which do you believe is the most honest? And secondly, which currency of all the currencies in the world do you believe is the best store value and being honest, you know, now and in the future. And I'll hang up and listen to your answer. Thank you.

>> Well, Phil, currency--let me give him the currency part first. Currency is simply a function of people's faith in the willingness of other people to accept that. Dollar bills are just pieces of paper. And in fact, most of our transactions they consist of nothing more than electronic digits. But we trust the value of those electronic digits as a medium of exchange. The government has a monopoly on money and therefore cannot go broke so long as it retains that monopoly. Revolution, that's another question. So I'm not sure who--this to the first question about who has the most honest government. I don't know. We certainly have a government in this country that is actually quite well run by the standards of history for all of its shortcomings and its failings. One of the big problems in this country is that increasingly we are outsourcing government private contractors saying that those relationships are confidential and not following up on 'em. So I don't know that I can give--that's a very satisfactory answer. But honesty and integrity in government is crucial to the trust we need to be successful as a society.

>> For what it's worth, they do these figs internationally and they survey these figs and I will only give you one hint as far as most honest government. It's not far away.

>> Canada.

>> Yeah, we'll leave it at that. So anyway, with that we take a short break and we will be back with more 1370 Connection in a moment. David Cay Johnston Pulitzer Prize-Winning author and journalist with us this hour giving us a look inside the questions we need to be asking ourselves about how well our tax system and how well our economy is working, whether it's equitable enough to be stable and functional for the long term. More coming in a moment 1370 Connection continues on WXXI AM 1370 at FM HD2.

[Music]

[Background Music]

>> This is Curt Smith. This week on Perspective, Celebrities from Upstate New York. As a child, Irving Crane got a toy billiards table. We remember pool [inaudible]. We'll tale a ride with Rochester's greatest cab musician, Cab Callaway. And remember how sober or drunk, Foster Brooks was an Upstate original. Join us Saturday afternoon at 2 and Tuesday night at 9 on AM 1370 and FM 915 HD2.

>> You know about it for years. 1370 Connection on WXXI, I'm Bob Smith. David Cay Johnston, Pulitzer Prize-winning author and journalist with us this hour in advance of his speech and RIT's Ingle auditorium. This evening is part of the Caroline Warner Gannett lecture series, talking about the economy, talking about the tax system, talking about all of the systems that affect our lives, talking about how equitable they are or aren't, talking about it with Phil calling in at 263-WXXI. Phil you're on the air.

>> Actually you got Pete.

>> Okay Pete, sorry.

>> That's okay. I just moved four spots in the line up. David you said something earlier about how most of the people don't understand the economics other than

Reaganomics. And part of the problem is I believe in the educational process. We have locally heard the business and finance Professor Joe Marchese from MCC who is on monthly. And I have raised a couple of questions about the supply side economics and the attitude has been that, well, this is, you know, the--and globalization. Well, globalization is here to stay and there's nothing we could do about it. So the question is about what are we teaching? Are we just teaching the supply side economics free trade? Are teaching anything about when the economy, when workers in this countries were represented by organized labor? In fact when 35 percent of the workforce was represented by organized labor, we had a growing economy, an expanding middle class and we were--we made each other wealthy. We built the infrastructure of the country, we built cars, automo-- houses we built appliances for each other and we elevated our standard of living.

>> And by the way in fairness to Joe who's not here right now, he would agree with you. He does not necessarily think that's a great thing or a desirable thing, he just thinks it is and that current policy makers are unlikely to change it substantially in the near future.

>> They're not gonna change it.

>> He does not advocate for it.

>> Well the attitude that comes across is that its here to stay and there's nothing we could do about it.

>> Well Pete--

>> If were not teaching what happened before Reaganomics before Reagan inverted our economy from a bottom up creating wealth for people as opposed to well the, you know, the rest of us, you know, fighting over the scraps off the table of the wealthy.

>> Well Pete, first of all, yes, I think there are some grave deficiencies in our education system and many of them derive from when the education system was set up to provide workers who were not gonna question things and do route work and there's a lot less of that. We need to be developing critical thinking skills. You can have a better conversation with the average waiter you meet in rural France or Toronto or Hong Kong than with the average MBA you meet in the United States on issues on economics and politics because they think in a different way. They are raised to think in a more critical fashion, particularly in Hong Kong for the younger people there. We need to recognize that the professor is right, we are going to continue to be in a global economy but that doesn't mean the current rules are the right rules. We have a set of rules that were written by one group, the financier class. They were not written broadly. And we need to recognize that the financier class has done fabulously well under these rules which shouldn't be surprising since they wrote them.

>> Exactly, and they have no interest in changing it because it doesn't benefit them.

>> Nor would you if you were one of them.

>> And you just got--Pete, if I may interject right now that leads us to another question I wanna raise with our guest. Now, thank you for calling and I wanna

raise this question and that is, given that we have been through a real crisis and we're only inching our way slowly out of it right now, have we actually adjusted those rules to reflect the experience we've had yet or are we still set up for a repeat?

>> Oh we haven't. The congress has done absolutely nothing to address the issues that were involved in the Bailout. Absolutely nothing except for these credit card rules which are just disclosure rules, basically. The fundamental issues of regulating banking and what not had not been addressed that when you hear there is a business that is too big to fail, that is inherently saying, "We don't have a market economy." And you know, the other day I heard a prominent national journalist said, "I hate markets." And I thought, you know, I'm the guy who defends markets. My books are about we need markets. Business people don't want markets because markets mean lower margins and competition and you don't want to have those things if you can avoid them. And that's one of the fundamental problems we have. We have these narrowing areas. You know that the ownership of railroads in the United States today is more highly concentrated than when we created the Interstate Commerce Commission in 1887? And the monopoly pricing and the abuses by the railroad industry are phenomenal and yet where's the public out cry about this? It's costing us to close factories, its costing people jobs, leading to jobs going offshore. You're paying more for your electricity because of this. Where's the public protest?

>> Where is the information that people used to have at their hands to be able to even know and understand this?

>> Well if you read one of a handful of newspapers, it's there. But generally it's not and by the way that's another problem. When I started out as a journalist in the '60s I would go to cover some event and there would be 50 news organizations there competing. Now you've got monopolies all over the place.

>> There you go. You're talking about a handful of people who were doing the job that used to be done by hundreds.

>> Right.

>> And that diversity of information got you a lot.

>> It certainly did. And it also resulted in better information.

>> Because at the same time you not only have a diversity of sources but all of those sources had to adhere to a certain standard of professionalism. They had to vet the information they put out there and prove what they were saying in order to gain any kind of credibility and any kind of competitive traction.

>> Right.

>> Nowadays, you've got a whole lot of bloggers out there but they're speaking for themselves and we may or may not be able to trust everything they say.

>> Right.

>> And the vetted sources, the supposedly credible sources with professional standards and a lot behind them in terms of resource as well, how many are there?

>> And a lot less resources.

>> And a lot less resources to boot as we find out ABC news throwing hundreds of people away and reducing others to no benefit full time part timers.

>> Right. Right.

>> And that's anybody's guess what kind of a quality of service you're gonna get from there. 263-WXXI, 263-9994. Molly on the line. Hi, you're on the air.

>> Hello Bob and Mr. Johnston. It is really wonderful to hear somebody finally speak the truth about the economy. Your analysis is very correct and no wonder actually they called it the Reagan revolution. It was really a revolution of de-reaganation that has landed us here. It was probably Reagan's--of course strength was on the foreign policy side. But I would like to mention something. If people seem to like simple slogans, you know, trickle down economy seems to make a little sense up to a certain level. But how about trying to trickle up the economics now that's what we should tell people. Because if the lower classes have got lower income classes have got more money in their pockets they become customers, they become--they become consumers. So therefore any help that's given to the lower income level is actually a pro-business policy. I don't know why people can't understand this but there is a big case to be made for trickle up economics. Otherwise we're going to have trickle up poverty.

>> Right.

>> Which is right now because nobody is being--has enough money to buy.

>> Right.

>> So this is what I would like people to start thinking about, trickle up economics. The other side always has the nag and the mass--and they master the way that they create slogans. How about doing it the other way? Trickle up economics, well that's going to--that what's going to help us out of this mess.

>> Well Molly in fact, little thing to think about. Since 1961, the average income of the bottom 90 percent of Americans when you adjust for inflation, it's the vast majority, it's was 90 percent of us, has gone up after taxes 25 percent. That's basically a half of a percent a year. The economy grew a great deal more than that. In fact, the economy grew on average 3 percent a year. But incomes went up--I'm sorry 6/10 of a percent a year on average over that period of time. But if you're on the top 400 tax payers, instead of having a dollar and a quarter for every dollar you had back then after tax you have 37 dollars and 50 cents for every dollar you had back then. And your taxes have fallen dramatically. We need to work on the demand side economics. Higher incomes more jobs so that people are taxpayers not tax eaters. And let me remind people what Abraham Lincoln in his first address to congress said in December of 1861. Capital is not the superior of labor. Labor came before capital. And capital has no value without labor. Lincoln. Lincoln.

>> I do thank you very much Chris then again a strong federalist republican back then was a very different thing wasn't he?

>> Yes.

>> Which gets us to this. This is written in by Patrick in Rochester in our email at asktalk@WXXI.org. He says, "Isn't it ironic that there is all the ruckus today about the federal deficit by mostly republicans, tea party activists and conservatives. But not very long ago, the same folks were happy to take on serious debt with congress tolerated keeping the costs of two wars off the budget. Have Americans really gotten physical religion or is this all just partisan hype?"

>> Well I understand the--I don't wanna be cynical about this. We certainly went through a period here of 8 years with a president who spent unbelievably. His nonmilitary discretionary spending was greater than LBJ's in terms of the increase, and it wasn't paid for. But regardless of how we got here, what we need to do and that's what my talk about tonight is, a Path to Prosperity. How do we get out of this? We can get out of this. Imagine you're in Germany in 1945, you're country was devastated. People were starving. By 1965, 20 years later the Germans were doing very well. By 1985 they were rich. By 2000, they were richer than we are in terms of their lifestyle and quality. And we can get out of this but we have to get on another path.

>> Of course they did it more than anything else on the back of a surging international automobile industry and other hi-tech manufacturing. So I guess I'm gonna ask you this, is that going to be our way back that somehow find a way through policy as they did? It was a public policy decision. VW was a publicly owned for a lot of its early life as GM is now. Do we basically go the same route that Germany did, reinvest private and public money in partnership to regenerate our manufacturing economy and use that as the way like the Germans did?

>> Well first of all I don't think we need to do it with private money not public money. I think we need to be very clear about that. But secondly, the key thing in the economies that are doing well is that they do two things. They tax capital at very low rates and they don't tax it early on. That is if we were to have a much more severe state tax at death which is a tax on the right to transfer your wealth to someone else and lower capital taxes while someone is running their business. We probably would be much better off. Secondly, we need to develop a set of economical rules that encourage long term capital investment. Everything else oriented to this very short time periods, 90 days financial report. We need to develop a set of rules. And then the other side of this is on the, on the peoples side. We need to take away shocks so that, you know, you can pay higher taxes and be wealthier as an individual if you're a working person. If we take a way certain shocks from you, if you lose your job through no fault of your own, if illness strikes, if there's an accident, and if we were to address those issues that all the other modern countries have done through universal healthcare, universal pensions, universal unemployment you get a much more vibrant economy over the long run.

>> Now of course most of us can't simply hop in our cars and go across the peace bridge?

>> No.

>> So--

>> They'll take you if you've got over a million dollars liquid net worth.

>> Yeah, they will but most of us don't have that. And so what do we do if we can't just jump in the car and go across the peace bridge to a place where you could do that. How do we turn it around when the political will if its there doesn't seem to be showing itself visibly?

>> Well here I would argue that there's an enormous obligation on the part of people of faith. I'm not one of them, alright? But I think that the ministers, rabbis, Imams, need to be out there reminding people of what's in the Old Testament, the New Testament, and the Koran about the world. These are lessons that were learned long ago, thousands of years ago and have endured through time. Taking from those would less to give to those with more is evil. That's what the bible says, evil. Doesn't be around the bush. It calls it evil. The fact that we have people dying and I know three people personally who died simply because of our healthcare system. One of them a man who the day he turned 65 and can [inaudible] for healthcare was a documentary film maker went to see his doctor. The doctor said, you know, Don if you'd been in here 9 months or a year ago it'd be a minor procedure. You'd be taken care of but unfortunately you have a skin cancer that's metastasized and you're gonna die very soon. This is immoral and it's expensive. We're spending every 6 dollar of our economy on healthcare. We could be spending 10 cents not 17 cents and covering everybody and having vastly better care than we do now. For 12 cents we could have Cadillac Coverage for everybody but we have to do it through an economically efficient system. We're not doing that.

>> But of course there are so many interests that feel that they're gonna lose out and they all have money and they now thanks to the Supreme Court have an unlimited power to spend that money to put their message on the air in behalf of particular candidates.

>> Progress was never made by wishing. What did Frederick Douglass, one of the greatest Rochesterians of all time, say, power concedes nothing. And if you want a different society you have to work for it. You have to decide to have a different congress. And yes, some of us will lose on somethings and some of us will gain on others. The object is how do you get the best value for your society so that we'll endure and our liberties will endure.

>> John on the line next to 263-WXXI. And John you're on the air.

>> Hey. Hey Bob. It's an honor to talk to your guest. A couple of questions for you. You had mentioned one of our problems in the country was our union membership has declined. And I have to take issue with you on that. I think it may have in other areas of the country.

>> But if you look at New York State as an example, there's a big correlation between union membership increases especially on the public sector and the diminishment of our economy here especially in upstate. In fact, I was in Albany yesterday with some small business groups, manufacturing and all different types of small business groups and the biggest complaint to the legislators was the public unions have been given too much benefits, wages, et cetera. Now why didn't the legislators both democrat and republican agree with it?

>> Well John I--John I agree with you about that. Let me be clear about something. We know the Center for Government Research here did a study which showed that public sector workers actually are better off now in comfortable

jobs than private sector workers. That wasn't the historic norm, it's because they have unions. The--If you have a localized area that has unions it's at a relative disadvantage. But our economic competitors Japan, Germany, France, England they all have heavily unionized workforces. In fact, in most of those countries management is in unions. Not the very senior CEOs but the middle managers, the foreman, those people they're all in unions too. And a union inherently is simply buying power, collective buying power. By the way, big corporations do this. They have all sorts of arrangements to engage in collective buying power. And so what unions do is they provide a higher standard of living and they do it essentially by reducing the return to the owners. That's the fundamental thing that happens. They may push up prices some but the fundamental thing they do is reduce return store owners. There's a very--

>> But David I got to add this though too to the question. We've got very good local state and federal labor laws now versus what will we have 30 or 40 years ago. Aren't those enough to keep techno workers a fair review--wage and wage price amount of that?

>> Well John, here's the question to ask. What do the data show? And what the data show is that wages are falling. They are lower. The median income of families today in real terms is for the bottom 90 percent of families is lower than it was in 2000. Income for the bottom 90 percent of Americans peaked in 1973, that's 37 years ago.

>> Does it include subsidies, David?

>> What do you mean by subsidies?

>> Subsidies, rent subsidies, medical insurance subsidies?

>> No, I'm talking about the--

>> Education subsidies that sort of thing.

>> Right. I'm sorry, I'm sorry. No but in recent--those were incomes you report in your tax return but, you know, people's healthcare plans and pension plans have been radically cut back. The portion of the economy going to these things had been radically cut back. People are spending more money out of pocket getting less quality care than they used to. I mean I don't think you can make a case of the bottom 90 percent of Americans are prospering. They're not. They're worse off. They're in debt. They have--Few were them have retirement plans. They're net worth--The net worth of the middle third of households headed by someone under 50 is 10 percent smaller today than it was in 1983, according to the Brooklyn's institution.

>> Hey, thank you for coming.

>> Thank you.

>> One thing--One thing I would--I ask on top of that. We know that the number of people relative to the overall private sector who were unionized has fallen by way more than half. I guess much more than that. Is there a correlation between the diminution of union membership in the private sector and the loss of purchasing power?

>> Oh absolutely. In this county from 2000 to 2007, the total amount of wages paid adjusted for inflation that is the total paycheck, Irving the county, fell by 660 million dollars. People earn 660 million dollars less in 2007 than they did in 2000 in 2007 dollars. Surprise, surprise that means there's not as much commerce and activity going on. And we are creating a society where--let me--I brought a little chart with me, Bob. I showed you before the show. That half of all workers in America, according to social security data, makes less than 509 dollars a week. 500 dollars a week is 26,000 a year. If you're in that group, if you make 26,000 dollars a year your total federal tax burden, payroll taxes and income taxes is 6,100 dollars or 22 percent of your income. If you're in the top 400 tax payers in 2006, you're total--I'm sorry in 2007, your income was 344.8 million dollars in the first 40 minutes of the year you made 26,000 dollars and you're total federal tax burden is only 16.6 percent. The guy making 500 a week is paying 5 percentage points, 4-1/2 percentage points, more income taxes than someone at the very, very top. That's part of the reason we're in trouble.

>> So Warren Buffet was right when he said that his administrative assistant was for heavily taxed proportionately than he was.

>> That's right. He did a little experiment after I wrote a piece saying that he paid 17 percent income tax in lo and behold, he has revealed that that's correct. I mean I can figure out from the public record. And his secretary was paying 34 and his executives were paying 34.

>> 263-WXXI, 263-9994, got Jane on the line. Hi Jane, you're on the air.

>> Hi, great show today, wonderful. I did disagree about people of being able to act better like different decisions. And I refer back to JFK in his inaugural speech if you remember he said something about if the first society cannot help the many who are poor, you cannot save the few who are rich. So what am saying is some people have the humanity, the wisdom, the character to make different decisions. And I just don't think, you know, I hear this thing about all those human to be greedy. And I said, "No, it's not human, it's the person like and envision." And I think the vision of the people empowered right now, they think that ideal society would be like Upton Sinclair described in the jungle. And I think that's where we're headed is that so they want us to have nothing, and all the power in just a very few hands. It's very, very, very ugly.

>> Or so they expect to sell anything too if that happens.

>> I don't think they think that far. They're pretty stupid people.

>> Well, I don't know if they're stupid. I think they tend to as a group to be pretty smart that that's how they got there. But I think you're making a very good point. You know, we are a society. Unfortunately, the idea that was embraced by Milton Friedman and Margaret Thatcher and promoted by [inaudible] that we're just individuals. We're just as Milton Friedman once said, "We're just several hundred million people who share the same geography, we're not a society," is an awful idea. Human beings are social animals. We are interactive. In the case--I mean, I give you simple example of this, if you own a business and have equipment if there aren't people to work in it and there aren't people to buy it, the equipment is worth nothing. We need to create a society that recognizes that and we need to appeal to our better instincts not our base instincts.

>> Well we've gone so far as to have a lot of flawed and deceit and also it's a shenanigan.

>> Oh, we've always have those.

>> Well, going back to Lincoln, I guess we're looking for a society that seeks the angels of its better nature I suppose. Think we'll get there?

>> Hope so.

>> Are you optimistic or pessimistic based on what you see happening around you right now?

>> Well you can't have 8 children and not be an optimist father. I'm very troubled on what's happening right now but I also see signs that people are recognizing that we need to fundamentally begin to reassess what we're doing and think about our policies. And that's a good thing. You know, the poll show for example, there's overwhelming public support for universal healthcare. What people don't like of specific plans that are being proposed but the concept is overwhelming in the support. That's a good sign. It's a sign that indicates people have both economic sense and humanity.

>> They'll be interesting to see if we translate that into action. My thanks to David Cay Johnston, the Pulitzer Prize-winning author and journalist for sharing this hour with us. He'll be sharing his thoughts with you this evening at our RIT's Ingle Auditorium as part of the Caroline Werner Gannett lecture series at RIT. And thank you al for sharing your thoughts with us in this hour. 1370 Connection at WXXI AM and FM HD2 Rochester. I'm Bob Smith, stay with us, more to come after the news.

[Music]

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