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The Tiffany trickle-down

Joe Ferullo | Sep. 7, 2011 NCR Today

Congress heads back to, er, "work" this week -- and high on the agenda is what to do about the economy. The battle lines are as dug-in as they are familiar: short-term government spending versus immediate budget cuts.

Over the summer, you'll recall, the president's "grand bargain" over economic policy fell apart on the question of taxes for the top 3 percent or so of income earners. Republicans could not agree to this -- calling such taxes a job-killing burden on a group of people once called "the rich," but now termed "job creators."

This push is a variation on trickle-down economics of the 1980s: if the rich are taxed less they will spend more, and that prosperity will fuel the rest of the country. It makes a kind-of-sense, and yet a look at the numbers shows otherwise.

Figures compiled by [1] *The New York Times* in an analysis by former Labor Secretary Robert Reich detail the story of middle-class economics since the birth of trickle-down economics. From 1980 to 2009, people at the bottom fifth saw incomes drop 4 percent; workers in the second fifth saw a slight 7 percent rise. But people in the top fifth had incomes increase 55 percent.

That was in contrast to the U.S. economy of 1947 to 1979 -- where growth was more evenly spread: the bottom fifth saw wages jump 122 percent; the top fifth about 99 percent. Everyone prospered in that era, compared to the imbalances of the last three decades.

Real-life proof came recently in the latest quarterly report for Tiffany, the high-end jeweler. In the midst of turbulent financial times and a stagnant job market, Tiffany raised its economic forecast [2] for the year. At its flagship Manhattan store on Fifth Avenue, sales are up 41 percent. That's an impressive trickle.

Government spending in an economic crisis is usually aimed at the middle and working classes: funding for projects the spur construction jobs or prevent teacher layoffs. A hike on taxes for the very rich to help cover those costs looks like money well spent -- those middle class families buy things like washing machines, groceries, dishes and bath towels -- purchases that send money flowing throughout the economy.

Putting all that money in just one place, for just one purchase -- say a bejeweled bracelet at Tiffany's -- doesn't seem to work as well.

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[1] http://www.nytimes.com/2011/09/04/opinion/sunday/jobs-will-follow-a-strengthening-of-the-middle-class.html
[2] http://www.reuters.com/article/2011/08/26/us-tiffany-idUSTRE77P2G020110826