Soak The Very, Very Rich

by James Surowiecki • August 16, 2010

The fight on Capitol Hill over whether to extend the Bush tax cuts is about many things: deficit reduction, economic stimulus, supply-side ideology. But at its core is a simple question: who counts as rich? The Obama Administration's answer is that you're rich if you make more than two hundred thousand dollars a year as an individual or two hundred and fifty thousand dollars a year as a household, and therefore you should have your taxes raised. Conservatives suggest that this threshold is far too low, and argue that Obama would be taxing mostly small-business owners, or the people a Fox News host has referred to as "the so-called rich," rather than fat plutocrats. You might think this isn't really much of a debate. An annual income of two hundred and fifty thousand dollars puts you in the top three percent of American households, and is more than four times the national median. You're rich, and a small tax increase isn't going to rock your world.

Good luck convincing people of this, though. Judging from surveys of how Americans describe themselves, most of the privileged don't feel all that privileged. Why is that? One reason is the American mythology of middle-classness. Another is geography: in a place like Manhattan, where the average apartment sells for nine hundred thousand dollars, your money doesn't go as far. And then there's a larger truth about how wealth is getting concentrated in this country. As the economists Thomas Piketty and Emmanuel Saez have documented, people who earn a few hundred thousand dollars a year have done much worse than people at the very top of the ladder.

Between 2002 and 2007, for instance, the bottom ninety-nine percent of incomes grew 1.3% a year in real terms — while the incomes of the top one percent grew ten percent a year. That one percent accounted for two-thirds of all income growth in those years. People in the ninety-fifth to the ninety-ninth percentiles of income have represented a fairly constant share of the national income for twenty-five years now. But in that period the top one percent has seen its share of national income double; in 2007, it captured twenty-three percent of the nation's total income. Even within the top one percent, income is getting more concentrated: the top 0.1 percent of earners have seen their share of national income triple over the same period. All by themselves, they now earn as much as the bottom hundred and twenty million people. So at the same time that the rich have been pulling away from the middle class, the very rich have been pulling away from the pretty rich, and the very, very rich have been pulling away from the very rich.

The current debate over taxes takes none of this into account. At the moment, we have a system of tax brackets well suited to nineteenth-century New Zealand. Our system sets the top bracket at three hundred and seventy-five thousand dollars, with a tax rate of thirty-five percent. (People in the second-highest bracket, starting at a hundred and seventy-two thousand dollars for individuals, pay thirty-three percent.) This means that someone making two hundred thousand dollars a year and someone making two hundred million dollars a year pay at similar tax rates. LeBron James and LeBron James' dentist: same difference.

This makes no sense — there's a yawning chasm between the professional and the plutocratic classes, and the tax system should reflect that. A better tax system would have more brackets, so that the super-rich pay higher rates. (The most obvious bracket to add would be a higher rate at a million dollars a year, but there's no reason to stop there.) This would make the system fairer, since it would real stratification among high-income earners. A few extra brackets at the top could also bring in tens of billions of dollars in additional revenue.

There would be political advantages, too: the reform could actually make tax hikes on top earners more popular. Critics like to describe tax hikes as hurting small business, because small-business owners make up a sizable percentage of people in the top two brackets and because small-business owners, unlike Wall Street traders, are popular on Main Street. It would be harder to mount a defense of millionaires, which may be why this year a Quinnipiac poll found over-whelming support, even among Republicans, for a millionaire tax.

The explosion in wealth at the very top of the pyramid has given rise to what the commentator Matt Miller has called a "lower upper class"— doctors, lawyers, accountants, even some journalists, who make very good livings but enjoy nothing like the rewards that come to their peers in finance or in the executive suite. The lower upper class exerts a cultural influence out of proportion to its size, and so its anger toward the upper upper class—toward outrageous executive salaries and Wall Street shenanigans — could be a powerful force for reforming the way we deal with inequality.

This is one case where simpler isn't better. In a society that's becoming more stratified, a sensible tax system should draw more distinctions, not fewer. The U.S. is now a place where the rich and the ultra-rich really inhabit different worlds. (A couple of years ago, Barron's declared, "Yes, it takes more than $10 million to be seen as rich these days.") They should probably inhabit different tax brackets, too.

ILLUSTRATION: MARC ROSENTHAL

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'Saving' Social Security From Its Previous Rescue

The multi-trillion surplus that must never, ever be used – By Jim Naureckas

Way back in 1983, corporate media helped sell the dubious notion that Social Security needed saving by a blue-ribbon commission (*Extra!*, 1–2/88). The panel—headed by future Federal Reserve chair Alan

Greenspan—raised payroll taxes and the retirement age for the ostensible purpose of accumulating a large surplus to help finance the retirement of the baby boomers born between 1946 and 1964. That this surplus, loaned to the general federal budget in exchange for Treasury bonds, would also help to finance the Reagan-era tax cuts for affluent taxpayers was treated as a complete coincidence.

Twenty-seven years later, the baby boomers are retiring on (delayed) schedule, and Social Security has accumulated the projected surplus—some $2.5 trillion. But now that it's time for wealthy taxpayers to pay back the money that the Treasury borrowed from the Social Security program, suddenly Social Security needs "saving" once again. The new twist is that the use of the trust fund that had previously been the mechanism by which it was "saved" is now the chief indication that the program is in dire danger.

When Social Security, its cash flow pinched by the deep recession, made its first modest withdrawals this year, CNN's Wolf Blitzer (8/5/10) announced: "Social Security reaches the final financial tipping point. The system is now paying out more than it's taking in. Will Washington do anything anytime soon to fix this problem?" *The Washington Post* sounded an alarm in a front-page news story (4/8/10) by Neil Irwin and Lori Montgomery:

> *Social Security is draining resources from the broader federal budget, as spending on benefits has risen above this year's Social Security tax collections. Although that gap is expected to be fleeting, the program, the largest single item in the federal budget, is projected to require sustained support within the next 10 years.*

Social Security is "draining resources" from the government in the same sense that you "drain resources" from your bank when you make a withdrawal from your savings account. Perhaps getting some push back on the idea that it's somehow illegitimate for the retirement program to make use of the funds it had banked with the Treasury specifically so they would be available now, Montgomery included a contrary view in a later piece (6/9/10)—immediately followed by a rebuttal from "many budget experts":

> *The program's defenders argue that there is no crisis: If Treasury would repay billions of dollars in surplus Social Security taxes borrowed over the years, the program could pay full benefits through 2037. But many budget experts question whether supporting the existing benefit structure should be a cash-strapped nation's first priority.*

Those same "budget experts" also told Montgomery that "it would be difficult to significantly reduce future deficits without addressing the rising cost of Social Security." Actually, the long-term additional requirements of Social Security are fairly modest — the program's trustees project that it will need an additional 1.4 percent of the nation's GDP by 2085. By comparison, personal income taxes went from 8.0 percent of GDP in 1995 to 10.2 percent in 2000; corporate income taxes went from 1.2 percent in 2003 to 2.7 in 2007. Such changes do not require wrenching economic adjustments — but if keeping taxes low, which is to say ensuring that the nation continues to be "cash-strapped," is your "first priority," then refraining from cutting Social Security is indeed difficult.

But corporate media outlets—which, after all, pay corporate taxes and are mainly owned by people who pay the top income tax rate—seem reluctant to acknowledge that the long-term Social Security choices are between cutting income for the elderly and modest tax increases. Instead, they prefer to frame it as a debate between "budget experts" and, well, ninnies. A news article by the *New York Times'* Matt Bai (8/26/10) addressed:

> *the idea that Social Security is actually in fine fiscal shape, since it has amassed a pile of Treasury Bills—often referred to as IOUs—in a dedicated trust fund. This is true enough, except that the only way for the government to actually make good on these IOUs is to issue mountains of new debt or to take the money from elsewhere in the federal budget, or perhaps impose significant tax increases—none of which seem like especially practical options for the long term. So this is sort of like saying that you're rich because your friend has promised to give you 10 million bucks just as soon as he wins the lottery.*

Aside from the notion that government bonds are "often referred to as IOUs"—it would be very strange to see such a reference when the subject was not Social Security—perhaps the oddest thing in this passage is the comparison of counting on the U.S. to honor its financial obligations to a fantasy that your friend might win the lottery. It's really more like hoping that your billionaire friend pays back the millions of dollars he borrowed from you—which he certainly ought to do, even if it might not be his "first priority."