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Taking the Offensive on Wealth

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It's time for progressives to launch a comprehensive challenge to America's extreme concentration of income and wealth. This is not only morally and economically right; a number of developments suggest that it is also one of the areas where progressives can aggressively take the political offensive. As time goes on, the difficulties created by the Bush Administration's deficit-driven economic policies are likely to make this a winning strategy.

America has experienced what economist and New York Times op-ed columnist Paul Krugman calls "tectonic shifts" in income and wealth in recent years. The top 1 percent now claim more income each year than the bottom 100 million Americans taken together. An only slightly larger elite group, the top 5 percent, own just under 70 percent of financial wealth and more than 80 percent of unincorporated business assets. The economist and Nobel laureate Paul Samuelson has regularly dramatized what the general patterns mean. In the 1948 version of his widely used textbook, Samuelson wrote, "If we made...an income pyramid out of a child's play blocks with each layer portraying $1,000 of income, the peak would be far higher than the Eiffel Tower, but almost all of us would be within a yard of the ground." By the end of the century, Samuelson found that although there would be some modest alterations at the bottom, the world had changed so much the peak would be as high as Mount Everest.

Three powerful forces are making a serious challenge on issues of income and wealth politically feasible. The most important is the pain created by the Bush tax and budget cuts. At 17 percent in fiscal year 2003, federal revenues as a share of GDP are at their lowest level since 1959. The budget deficits are causing cutbacks everywhere, and this in turn is creating increasing problems at the state level and in local communities. Public services are being radically reduced; healthcare and state college tuition are increasingly unaffordable not only for the poor and working poor but for an embattled middle class; school budgets are under intense pressure, which is driving an increase in property taxes--the list is endless.

Ultimately, the political pressures resulting from the growing pain must find an outlet. Indeed, just beneath the surface of conventional press reporting, they already are. Consider these largely overlooked recent developments: In the November elections California voters comfortably approved tax increases on those making more than $1 million and earmarked the proceeds for mental health programs. Last year New Jersey enacted legislation taxing those making more than $500,000 in order to offset regressive property taxes. Since Bush took office in 2001, numerous states, red and blue, have decided not to repeal estate taxes, and many others have refused to go along with Bushdriven revisions of depreciation guidelines that reduce corporate taxes. Even the conservative Virginia State Senate approved legislation that would have raised income taxes on those making more than $150,000.

The egregious behavior of the very rich, along with recent shifts in income and wealth patterns, reinforces this logic. At one level is the ever more obvious routine corruption among the wealthy--from the brokerage and insurance-industry insider deals and the $9 billion cooking of the books by Fannie Mae executives to the New York Stock Exchange's self-dealing arrangements and the Enron, WorldCom and other scandals. At another level are outrageous consumption patterns among the elite. In recent years we have been treated to a $6,000 shower curtain and a $15,000 umbrella stand, and a $2 million birthday party for one boss's wife. Even the Wall Street Journal had difficulty disguising its dismay in a recent front-page report on the conspicuous-consumption race among billionaire yacht buyers.

A third reason that a challenge to these patterns is increasingly viable is what might be called the logic of small versus large numbers. Gene Sperling, Bill Clinton's former economic adviser, was one of the first to put his finger on the issue. Just before the attacks of September 11, 2001, Sperling proposed holding off "full repeal of the estate tax, and the second and third stages of the [Bush] tax cut for those in the top 2 percent" so funds could be made available to help keep Social Security solvent. The proposal would save more than $1 trillion and would insure that 98 percent of Americans would still "get their full tax cut."

A few months later the Senate's liberals joined in. The late Paul Wellstone proposed freezing future tax reductions for the top 1 percent. Ted Kennedy proposed delaying tax cuts for families with incomes over $130,000. Even conservative Democrat Joseph Lieberman urged postponing both the full repeal of the estate tax and reductions in the top tax rates. By the fall of 2003 all the Democratic presidential candidates had put forward one or another variation on the same general theme. Strategies that offer gains to 98-99 percent and losses only to the extremely wealthy 1-2 percent are all but certain to increase their appeal over time.

A further, critical point: Though exaggerated in many accounts, so-called moral issues involving abortion and gay marriage were important parts of conservative strategy during the 2004 election--especially among Catholic Latinos, who now outnumber blacks. The only way to offset right-wing divide-and-conquer strategies is with another, more powerful--and more powerfully dramatized--economic strategy that unites the vast majority across racial and ethnic lines.

Democrats have been frightened to open a full-blown challenge to what is going on, in part because many of them have depended significantly on financial support from the wealthy and from corporate funders and their lobbies. What the Dean campaign, MoveOn.org and ultimately the Kerry campaign demonstrated is that sources of funding are now available that could open the way for a new populism by freeing serious progressive candidates from this restraint. Democrats have also been cautious because they fear being tagged with charges of waging "class war." The truth is that Bush's policies are class warfare. It is simply time to call his bluff. Boldness, as the Dean campaign also demonstrated, creates its own energy. It is high time progressives called a spade a spade.

A fully developed strategy based on the logic of pain and the logic of small versus large numbers would involve four key elements, at both the state and national levels. The place to start is with state-by-state adaptations of measures like those in California and New Jersey, which link elite tax increases to the solution of specific problems like mental health services or insupportable property taxes. Education, tuition relief and medical care for the elderly and the poor are obvious candidates. State luxury taxes on yachts, expensive cars and high-priced second and third homes could also help focus the central issue.

Taxes based on principles like those that have been effective in California and New Jersey should also be proposed at the federal level--along with the rescinding of Bush's tax cuts. They should be followed by an overall revision of taxes with a return to the 50 percent top marginal tax rates of the first Reagan Administration. (Throughout the postwar boom, federal income taxes for the very top brackets were set at 91 percent. The rate was reduced to 77 percent in 1964 and 70 percent in 1965, and remained at that level or higher until the Reagan era.)

A second obvious target is corporate tax giveaways at both the state and federal levels. Corporate taxes have declined from 35 percent of federal revenues to 7.4 percent over the past half-century. This past year, corporations received an additional $137 billion in legislated cuts. A dual campaign--focusing on growing corporate corruption and excessive executive compensation, along with the pressing need for revenues--could establish the political basis for a comprehensive, longer-term overhaul of corporate tax policy. Several states have demonstrated that this is feasible. New Jersey, for instance, more than doubled its corporate tax levy in 2002--after twenty years of declining tax revenue.

A third, longer-term element would involve wealth taxes at both the state and national levels, as urged by economist Edward Wolff and constitutional expert Bruce Ackerman. Wealth taxes, common throughout Europe and in most other advanced nations, must ultimately become part of a serious tax program here. A US tax based on the modest Swiss system (marginal rates between 0.05 percent and 0.3 percent, after exempting the first $100,000) could yield an estimated $60-$70 billion this year. A tax based on the Swedish system could yield upwards of $600 billion.

Wealth taxes are common in the United States, but only on the kind of wealth owned by most people: their home. (Moreover, such taxes apply to the total value of the home, not to what people actually own as equity, which is often only a small fraction of the value.) A "property tax on wealth" that allowed exemptions for modest holdings would bring the kind of wealth the very rich own--stocks and bonds--into the same tax net. A good place to begin would be to expand upon the modest tax on intangibles that states like Florida already have on their books.

A comprehensive approach would ultimately move beyond taxation and open up an entirely new area: direct wealth ownership benefiting the public rather than elites. Dramatizing the principle that alternative uses of wealth are both politically and economically feasible would involve two basic elements:

First, we should build up wealth-holding institutions that help solve social and economic problems both through local initiatives and through state and federal tax, loan, procurement technical assistance and other policies. A logical first step would be to expand upon the thirty-year trends that have already led to the creation of some 4,000-6,000 nonprofit corporations investing in neighborhood housing and businesses, and some 11,000 largely worker-owned firms, which stabilize and anchor jobs in communities across the nation. The latter are especially important as globalization continues to undermine local economies.

A second element in the effort to make wealth benefit the public directly would be to accelerate the use of public pension funds for local economic development--as states ranging from liberal California to conservative Alabama already do. (In some cases this may involve a political fight, as suggested by the recent ouster of Sean Harrigan, a union official, from the board of the California Public Employees Retirement System. The fact is, however, more than half the states already utilize some form of economically targeted investment strategy.) Beyond this are even more interesting possibilities for adaptation, like the Permanent Fund in Alaska, which owns and invests oil wealth on behalf of the public and provides each citizen of the state with dividends as a matter of right (almost $10,000 for a couple with three children in 2000).

In all of this, one other thing is required: Progressives need to grasp fully, and then communicate, the morally outrageous nature of what is happening in the wealthiest nation in the history of the world. The typical American full-time worker earned just $35,906 in 2003. The total income of the typical family (including spouse, etc.) came to just under $53,000. Try raising a family or think about sending your kids to college on that—and remember that roughly half of all families are below this figure. Meanwhile, to take just three examples: Richard Fuld Jr., chief executive of Lehman Brothers Holdings, made $67.7 million in 2003; George David of United Technologies made $70.5 million; and Reuben Mark of Colgate-Palmolive made $148 million. Something is powerfully amiss in this disparity and it is getting worse--something progressives have not yet found a way to fully dramatize.

Pollster Stan Greenberg and others have suggested that John Kerry's failure to put forward a compelling economic vision was one of the most important reasons he lost the presidency, especially in states like Ohio. There are increasing signs that Republican politicians are by no means as united as the November election results seemed to suggest. Many, facing their own constituents in a nonpresidential year, are unlikely to go along with, or continue to defend, the ever-growing Bush deficits. The time is ripe for an all-out effort to demand change--and to force the other side to attempt to defend what is in fact indefensible.

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