**Inquiring Minds topic – 15 November 2019**

**Jim Goodale, Moderator**

**How to Address Growing Income Inequality in the US**

The top 1% of American households now own more than 40% of the nation’s wealth. According to the Congressional Research Service, the average household income (in 2015 dollars) of the top 20% or Americans has increased from $110,000 in 1967 to $200,000 in 2015, compared with about a 10% increase for the bottom half of household incomes during the same period.

Recent cuts in income taxes have contributed significantly to the trend of the rich getting richer and the poor getting poorer. Furthermore, our current national debt has climbed from under 40% of GDP in the early 1980s to just over 100% today. These trends cannot continue – or can they? The current Democratic presidential candidates have proposed many plans.

**What can and/or should be done?**

1. Nothing. The free market should be allowed to prevail, assisted by political policy, which may be based on either trendy or time-tested theories.
2. The federal government must intervene before the US middle class disappears, but by which of the following actions. AND how would each be implemented?
	1. Gradually increasing the maximum marginal income tax rate from its current value of 39.6% to 70% and also increasing the tax rate on capital gains.
	2. Impose a wealth tax.
	3. Eliminate most if not all tax deductions and impose a flat tax.
	4. Institute a value-added tax.
	5. Other options you care to discuss.
3. Is any of this politically feasible? Or will we just keep kicking the ball down the road for the next generation(s) to wrestle with?
4. Do you agree with Robert Reich’s projection of a shrinking economy with increasing income and wealth inequality?

**Should We Soak the Rich? You Bet!**

And they’ll still be loaded.

**By**[**Nicholas Kristof**](https://www.nytimes.com/column/nicholas-kristof)

**October 12, 2019**

<https://www.nytimes.com/2019/10/12/opinion/sunday/taxes-wealth-poverty.html>

Donald Trump promised struggling working-class voters that he heard their frustrations and would act.

He did: He pushed through a tax cut that made income inequality worse. In 2018, for the first time, the 400 richest American households paid a lower average tax rate than any other income group, according to new research by two economists.

Those billionaires paid an average total rate of 23 percent in 2018, down from the 70 percent their 1950 counterparts paid. Meanwhile, the bottom 10th of households paid an average of 26 percent, up from 16 percent in 1950.

That’s the rot in our system: Great wealth has translated into immense political power, which is then leveraged to multiply that wealth and power all over again — and also multiply the suffering of those at the bottom. This is a legal corruption that President Trump magnified but that predated him and will outlast him; this is America’s cancer.

We hear protests about “class warfare” and warnings not to try to “soak the rich.” But as Warren Buffett [has observed](https://www.nytimes.com/2006/11/26/business/yourmoney/26every.html?module=inline): “There’s class warfare, all right. But it’s my class, the rich class, that’s making war, and we’re winning.”

The infuriating data on tax rates, [reported](https://www.nytimes.com/interactive/2019/10/06/opinion/income-tax-rate-wealthy.html?module=inline) a few days ago by my colleague David Leonhardt, come from a new book, [“The Triumph of Injustice,”](https://wwnorton.com/books/9781324002727) by Emmanuel Saez and Gabriel Zucman. The class warfare against struggling Americans has unfolded in many dimensions aside from tax policy — factory closings and lack of job retraining, corporate greed and irresponsibility, assaults on labor unions, stingy social welfare, mass incarceration and so on — and we’ve seen the results in rising “deaths of despair” from drugs, alcohol and suicide. America’s richest men now live [almost 15 years longer](https://jamanetwork.com/journals/jama/article-abstract/2513561) than the poorest men — roughly the same gap in life expectancy as exists between [the U.S. and Nigeria](http://www.healthdata.org/nigeria).

As a society, instead of playing Robin Hood to smooth out the inequities, we’ve played the Sheriff of Nottingham. Lawrence Summers, the economist and former Treasury secretary, has calculated that if we had the same income distribution today as we had in 1979, the bottom 80 percent would have about an extra $1 trillion each year and the top 1 percent would have about $1 trillion less.

Instead, each household at the top has averaged an annual bonus of more than $700,000 a year.

One of the most consequential political debates in the coming years will be whether to raise taxes on the wealthy. Representative Alexandria Ocasio-Cortez has suggested returning to a 70 percent marginal income tax rate, and both Senators Elizabeth Warren and Bernie Sanders have proposed taxes on wealth in addition to income.

Two M.I.T. economists, Abhijit V. Banerjee and Esther Duflo, demolish the traditional arguments against higher taxes on the wealthy in an incisive book coming out next month, “[Good Economics for Hard Times](https://www.publicaffairsbooks.com/titles/abhijit-v-banerjee/good-economics-for-hard-times/9781541762879/).” While major league sports teams have salary caps that limit athletes’ pay, Banerjee and Duflo note that no one argues “that players would play harder if only they were paid a little (or a lot) more. Everybody agrees that the drive to be best is sufficient.”

Considerable evidence suggests that the same is true of C.E.O.s, and that higher tax rates don’t depress effort. In Switzerland, a shift in tax timing meant that the Swiss were not taxed for one year. This tax holiday, which they knew of in advance, turned out to have no impact on how hard people worked, Banerjee and Duflo write.

“High marginal income tax rates, applied only to very high incomes, are a perfectly sensible way to limit the explosion of top wealth inequality,” Banerjee and Duflo write.

There are legitimate concerns about tax evasion, but it would help if the I.R.S. focused its [audits less on impoverished Americans](https://www.propublica.org/article/earned-income-tax-credit-irs-audit-working-poor) claiming the earned-income tax credit and more on wealthy people with murky assets. It’s ridiculous that the county in all America with the [highest audit rate](https://projects.propublica.org/graphics/eitc-audit) is Humphreys County, Miss., which is poor, rural and [three-quarters black](https://www.census.gov/quickfacts/humphreyscountymississippi).

0-10%ile 20-30th 40-50th 60-70th 80-90th 95-99th 99.99th Top 400

Lower Income Higher Income

Adapted from <https://www.nytimes.com/interactive/2019/10/06/opinion/income-tax-rate-wealthy.html?action=click&module=RelatedLinks&pgtype=Article>

Total tax rate (Federal, state and local)



70%

50%

30%

10%

As for the wealth tax, which in Warren’s version would begin at $50 million, there are legitimate concerns about how to value assets, avoid marriage penalties and enable zillionaires to pay when their wealth is illiquid. But we already have a wealth tax — the property tax — that hits widows on Social Security with an illiquid asset (the family home). If these widows can figure it out, tycoons can as well.

Even if Trump disappeared tomorrow, we would still live in a country where the top 1 percent own more than the bottom 90 percent — and where on any given night more than 100,000 children are homeless.

By raising taxes on the wealthy, we could end the lead poisoning that afflicts half a million American kids, we could provide high-quality preschool for all, we could offer treatment for all people with addictions and we could ensure that virtually all kids graduate from a decent high school and at least get a crack at college.

The wealthy would still have more money than they could ever spend: Jeff Bezos would have had [$87 billion](https://www.brookings.edu/wp-content/uploads/2019/09/Saez-Zucman_conference-draft.pdf) in 2018 if Warren’s wealth tax had been in place all along, rather than $160 billion, according to calculations of Saez and Zucman. But we would be, I think, a fairer and better nation.

So should we soak the rich? You bet we should.

**PBS Interview with Robert Reich about his film “Inequality for All” (abridged)**

<https://www.pbs.org/newshour/economy/robert-reich-on-inequality-for-all-part-one>

**Paul Solman:** What’s the basic argument here?

**Robert Reich:** The argument is that inequality is bad for everyone, not just the middle class and poor. The rich would do better with a smaller share of a rapidly growing economy than they’re doing now with a large share of an economy that is barely growing at all. It’s not growing because there’s not enough purchasing power in the middle class, and the lower-middle class and everybody aspiring to join the middle class, to keep the economy going.

We’ve seen this from the pioneering work of Emmanuel Saez and Thomas Piketty, looking back at tax records. They’ve brought that research up to 2012 and they see that 95 percent of the gains, the economic gains, since the recovery began in 2009, are going to the top 1 percent. Meanwhile, median household income keeps dropping, adjusted for inflation. Well, where are people going to get the money they need to keep the economy going? We can’t go back into debt like we were in before 2008. So there’s a fundamental threat to the economy.

There’s also a very fundamental threat to the democracy we live in because, as even Louis Brandeis, the great jurist, understood in the late 19th century, when we last had this extraordinary gap, “We can either live in a democracy,” he said, “or we can have a huge amount of wealth concentrated in few hands, but we can’t have both.”

**What’s So Bad about Unequal Distribution of Wealth?**

**Paul Solman:** But is it necessarily a bad thing?

**Robert Reich:** Well it’s a bad thing in two regards, even if you don’t particularly worry about issues of fairness or public morality. It’s bad, number one, because no economy can continue to function when the vast middle class and everybody else don’t have enough purchasing power to buy what the economy is capable of producing without going deeper and deeper into debt. Seventy percent of the entire economy is basically consumer spending. And if consumers don’t have the wherewithal to spend because all the money’s going to the top, and the people at the top only spend a very small fraction of what they earn, then the economy is almost inevitably destined to slow.

**Paul Solman:** Well, I can imagine a future in which there’s enormous productivity generated by relatively few people. (That may be happening even as we speak.) So there would be enough wealth to keep people fed and safely sheltered, and lots of diversions like video games….

**Robert Reich:** Bread and circuses, yes.

**Paul Solman:** Yes, bread and circuses, meaning Rome and the Roman strategy of about 2,000 years ago.

**Robert Reich:** You’re right. We’re approaching that already. The problem is that that would require redistribution. Structural unemployment is already very high. We also see that the ranks of the poor are growing. We’re up to about 15 percent (of all families) under the poverty line, and that’s very conservative. And the poverty line understates the true amount of poverty because it measures it as three times the breadbasket that a family needs, but it doesn’t consider all the other things that are inflating far, far faster than food prices. You’ve also got 22 percent of American children in poverty right now. Those trends are getting worse and worse. So your scenario where yes, we’re getting more productive and so people may at least have adequate food and clothing and shelter…

**Are We Ready for Another War on Poverty?**

**Paul Solman:** Do you think the wealthy are being foolish? Maybe they’ll just come to their senses and begin to redistribute a bit more?

**Robert Reich:** And a war on poverty. Every 30 or 40 or 50 years, when capitalism gets off track, we don’t go down the roads that other nations have gone down, toward communism or socialism or fascism. We reform the system. We save capitalism from its own excesses. We’ve done it before. The question is, will we do it in time?

**Paul Solman:** And so part of the point of this film is to issue the clarion call that we ought to be doing it now?

**Robert Reich:** Undoubtedly many people who are extraordinarily rich — if they’re in that top 1 percent, if they got 95 percent of the gains since the recovery began — they’re going to say, “Well I deserve it.” I mean, what do you expect them to say? Some of them, like Warren Buffet and Nick Hanauer, who’s in the film, say, “I should be taxed more; this is crazy.” But many of them say, “If I’m wealthy I must be really smart,” and many other Americans, who are not making it, say to themselves, “Well, you know, if I’m not making it I must be stupid.” In fact, there’s a very poignant scene in the film in which one labor union member is trying to decide where to go and what to do and he’s talking to me and he’s saying, “Look, I would be paid more if I had the brains. I don’t have the brains and so I understand. I’m just not worth it.” Well, we’re the richest economy in the history of the world, and yet, the median household income is dropping. For the majority of Americans not to get the benefits of this extraordinarily prosperous economy — there’s something fundamentally wrong.

