

BANGOR DAILY NEWS

Income and taxes

By Mark W. Anderson, Special to the BDN

Posted July 27, 2011, at 6:09 p.m.

In American political discourse, speaking of income inequality, taxes, fairness and the like, gets one accused of fomenting class warfare. The class warfare rejoinder is used as a tactic to end the discussion before it is started. Class warfare is bad on the face of it, end of conversation. Nevertheless, the current stalemate over budget deficits and debt ceilings begs the question — are there not fairness issues associated with income and taxes that we need talk about?

Income inequality in the United States reached a 20th century peak in the 1920s, just before the stock market crash and the Great Depression. One measure of income inequality that economists use is the share of income that goes to the top 10 percent of households, when households are ranked by income. In 1929 the top 10 percent of households collected nearly 50 percent of total income.

After the Great Depression, public policy focused on a more equal and presumably fairer distribution of income. As a result of tax and employment policies, income inequality fell rather steadily until the 1970s when the top 10 percent of households collected about 35 percent of income.

Around 1980, this half-century trend reversed direction and income inequality started to increase again. Today, income distribution is as unequal as it was in the 1920s. The top 10 percent households, when ranked by income, again capture half of America's total income. In the years since 1980, public policy no longer aimed at a more equal distribution of income, and arguing that income should be more fairly distributed was characterized as "class warfare" or "socialism."

At the same time that the richest Americans were getting an ever larger piece of the economic pie, income taxes on those households went down, most recently in the so-called Bush-era tax cut. Central to the current budget battle is whether those households should pay a larger share of the costs of government.

One of the more bizarre notions in the current debate is President Barack Obama's call that tax increases should not affect the middle class and be limited to those households earning more than \$250,000 a year. What is so strange about this is the idea that \$250,000 is considered a middle class income when the median household income in this country is less than \$50,000 a year. This level of median income is largely unchanged for over a decade, while the share of income continues to increase for the richest households.

But there is fierce resistance to raising income tax rates, even on those making over \$250,000 a year. A common refrain is that we should not raise these taxes because small business owners will be discouraged from creating jobs. The clarion call is: Don't tax the "job creators."

The obvious fallacy of this argument is that the taxes here are personal income taxes. A small business owner who has taken income out of the business has already decided not to use it to create jobs, rather to use that income for personal ends. That's why we call it personal income tax. Raising the tax rate in this case is, in fact, a tax on people who have decided not to create jobs with the proceeds of their businesses.

Obviously we need to reduce the federal budget deficit. This can only be done with a combination of spending cuts and tax increases (let's avoid the political euphemisms, revenue enhancements or tax reform).

Some members of Congress are proposing a balanced budget constitutional amendment as the solution. This proposal is disingenuous on two scores. First, politicians with sufficient political will and wisdom can manage the federal government and balance the budget. It was done in the Clinton era when we were paying down the federal debt, not adding to it.

Second, the reason we have the budget problems of today is that politicians rejected the spending restraints and reduced the taxes that yielded a responsible budget in the Clinton administration. Some of those very members of Congress calling for the balanced budget amendment now are culpable for the spending increases and tax cuts that are at the very root of today's problems. The balanced budget amendment is the last resort of those unable to **exercise** self restraint.

In the end, the questions here are really ones of fairness and community in our county. Are we a union, within which we have a commitment to care for each other? Should not those who reap the greatest economic benefits of our great society be grateful to bear a larger burden of the costs of making that society? Or are we just a grouping of individuals where self interest is what matters most?

I am not reluctant to talk about these issues as ones of class warfare. It looks to me like we have been engaged in class warfare for 30 years now, albeit a guerrilla war. And the rich are winning.

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<http://bangordailynews.com/2011/07/27/opinion/contributors/income-and-taxes/> printed on August 1, 2011