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# Inequality Figures Fuel Democrats' Plans to Tax Rich More

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The Gini coefficient, a measure of income or wealth inequality devised by statisticians, probably won't get mentioned in the stump speeches of 2016 Democratic presidential candidates Hillary Clinton, Bernie Sanders, or Martin O'Malley.

But a recent wave of studies highlighting the changes in such measures over recent decades form the backdrop for their proposals to increase taxes on the rich.

Clinton, the former secretary of state; Sanders, the independent senator from Vermont; and O'Malley, the former governor of Maryland, rail constantly against what they see as widening inequality and insist the rich can afford to pay more in taxes to fund new government initiatives that would help middle-income earners.

"The issue of wealth and income inequality is the great moral issue of our time, it is the great economic issue of our time, and it is the great political issue of our time," Sanders says on his campaign website.

In a document outlining his tax proposals, Sanders warns that wealth and income disparities risk turning the United States into an "oligarchic form of society where almost all power rests with the billionaire class."

Clinton, in a speech to the New America Foundation in May 2014, said: "Economists have documented how the share of income and wealth going to those at the very top, not just the top 1 percent but the top 0.1 percent, the 0.01 percent of the population, has risen sharply over the last generation. Some are calling it a throwback to the Gilded Age of the robber barons."

And O'Malley, speaking to news media in Iowa earlier this year, lamented what he called the "greatest concentration of wealth and power in the hands of the few that we have ever seen in this country, perhaps just once before."

According to the Urban-Brookings Tax Policy Center, the top 1 percent is made up of 1.12 million individuals and families with an average income of $2.1 million. The top 0.1 percent is made up of 115,000 individuals and families with an average income of $9.44 million.

## What Recent Studies Show

The Gini coefficient looks at the distribution of income or wealth on a scale of 0 (all having exactly the same income or wealth) to 1 (one person having all of either).

From the mid-1980s through 2012, the income Gini in the United States went from 0.34 to 0.39, an increase of 15 percent, according to a 2014 study by the OECD. Meanwhile, it said, the average Gini movement across the 34-nation organization was from 0.29 to 0.32.

Further, the study noted the income of the richest 10 percent in the United States is now 16 times that of the poorest 10 percent, whereas the comparable figures for other OECD members average 9.6 times. And the top 1 percent in the United States received almost 20 percent of pretax income in 2012, doubling its share since 1980.

A Pew Research Center analysis released in December 2014 found that the nation's highest-income households have a median net worth nearly 70 times that of the lowest-income families.

The Census Bureau, meanwhile, put the Gini index for income at 0.48 in 2014, a 5.9 percent increase from 1993.

Another 2014 report, by Emmanuel Saez of the University of California at Berkeley and Gabriel Zucman of the London School of Economics and Political Science, said the share of wealth owned by the top 0.1 percent in the United States went from 7 percent in 1978 to 22 percent in 2012, "a level comparable to that of the early 20th Century."

Critics, however, contend these studies often misinterpret data to match their biases, that the wealthy in the United States already pay more than their fair share in taxes, and that raising those taxes further would do more harm than good.

Phillip W. Magness, a historian at George Mason University, contends on his website that Saez and Zucman, along with French economist Thomas Piketty, have an "ideological disposition toward implementing a [highly] progressive tax structure, which manifests itself in their scholarship irrespective of the data results they obtain." (Prior coverage .)

## Democratic Candidates Take Aim at Rich

Regardless, to help middle-income earners, Clinton, Sanders, and O'Malley have called for new government spending to do such things as greatly expand aid to college students and provide paid family and medical leave. Sanders also wants a government-run, single-payer healthcare system, while Clinton wants a $250 billion down payment on infrastructure repairs, along with new tax credits to help with healthcare costs, help communities threatened with manufacturing job losses, and help employers provide apprenticeship and profit-sharing plans for workers.

Clinton promises to pay for her proposals by targeting unspecified "loopholes," along with asking more of "the most fortunate" and corporations.

Sanders says he, too, will ask more of corporations and the top 0.1 percent, beginning with an increase in the top marginal rate for individuals. While he has not said how high he would go with the top rate, Sanders told ABC News it will be "a damn lot higher" than 39.6 percent, the top rate currently. (Prior coverage.)

Sanders also wants a tax on high-frequency Wall Street transactions to finance free tuition at public colleges and universities, along with a payroll tax on all workers to pay for guaranteed family and medical leave. Further, Sanders calls for increasing estate taxes, including the establishment of a "billionaire's surtax" on estates worth more than $1 billion.

Clinton and Sanders also both favor the Buffett rule, calling for anyone making $1 million or more to pay an effective income tax rate of at least 30 percent.

O'Malley has called for taxing capital gains at the same rate as earned income and to create a new 45 percent marginal rate that he says would raise $800 billion over a decade, providing money to help college students, reduce youth unemployment, and deal with the needs of the cities. (Prior coverage.)

**Conservatives Respond**

But to say the wealthy are not already paying their fair share of taxes strikes many conservative economists as off base.

Stephen Moore of the Heritage Foundation offered Tax Analysts an analogy: "Suppose there were a banquet for 100 people and at the end of the night it was time to split the bill of $50 per person. If that bill were paid for the way we pay our income taxes, here is how it would work: Those in the top half of income would pay roughly $97 each and those in the bottom half of the income would pay an average of $3 each. Almost 40 people would pay nothing. And the single richest person in the room would cough up $1,750."

Curtis S. Dubay of the Heritage Foundation says the Democratic presidential candidates should be asked how they define fair share.

"Their baseline should be how much of the current tax burden the rich pay," Dubay said. "If we define it as the top 10 percent, they pay 53 percent of all federal taxes while earning 37 percent of income. The top 1 percent, if you want to define the rich more narrowly, paid 24 percent of all federal taxes and earned 15 percent of all income. No matter how you measure it, top earners pay the lion's share of the federal tax burden."

Also about the top 1 percent, Dubay said they already pay an effective rate over 30 percent, "so the Buffett rule is already in effect."

And if Democrats want to go further, he warned: "To raise enough money to pay for things like paid leave, they'd have to raise income tax rates and rates on capital gains and dividends. Those hikes will reduce investment, which will slow capital formation, job creation, and wage growth for Americans at all income levels. Soak-the-rich tax policies end up leaving us all wet."

Victor Fleischer, the University of San Diego law professor who first drew the nation's attention to the compensation of hedge fund managers, says the Democrats need to rethink their fair share argument. "Rich people who are paid with carried interest don't pay their fair share," he told Tax Analysts. "Rich people who hide income abroad don't pay their fair share. Rich people who get paid in founders' stock don't pay their fair share. But lots of rich people [who] pay tax at ordinary income rates do pay their fair share."

Fleischer added: "The Democratic party should stop trying to address inequality by raising the tax rate on ordinary income. Eliminating the capital gains preference would be a better approach, especially when the capital gain is really disguised labor income."

Meanwhile, when *The New York Times* published an article October 16 suggesting that "a surprising amount" could be raised by increasing taxes on the top 1 percent, it brought an immediate blog response from analyst Scott Greenberg of the Tax Foundation. In particular, Greenberg criticized the ease with which the article said the effective tax rate of the top 1 percent could be raised from 33 percent to 45 percent and bring in "a whopping $276 billion" per year.

To raise the effective rate on the top 1 percent by 12 percent, he said, would require raising the top marginal rate from 39.6 percent to 74 percent.

And Greenberg told Tax Analysts, "While it's often politically popular to call for higher taxes on the rich, Congress would have to raise marginal tax rates extremely high in order to raise enough revenue to significantly expand government programs."

Similarly, Chris Edwards of the Cato Institute said, "Clinton and Sanders may be under the illusion that United States is a low-tax country. But OECD data show that the federal-state personal income tax rate in the U.S. is 46 percent, which is higher than the OECD average top rate of 42 percent. The OECD has also found that the United States already has the most graduated -- or 'progressive' -- tax system among their member countries. So I'd suggest Clinton and Sanders do their homework before making wild claims about needing more taxes on high earners."

**Don't Cry for the Top 1 Percent, Others Say**

But Harry Stein, fiscal analyst with the Center for American Progress Action Fund, counters, "The reason they pay the most taxes is they have the most money." And the rich are helped by being well-equipped to take advantage of tax preferences, he added.

Further, Stein said, U.S. tax policy most recently has tended to favor capital gains and other types of investment income, further benefiting upper-income groups that get a lot of their wealth from such income.

Moreover, he said, polling data show "the idea of raising taxes on the wealthy and major corporations is really quite popular."

Overall, though, says analyst Howard Gleckman of the Tax Policy Center, the federal income tax is "quite progressive," given that the 33 percent effective rate paid by the top 1 percent is 2.5 times the rate paid by middle-income households.

"Could the rich pay more? Sure," Gleckman says. "Would it discourage them from working or investing on the margin? Probably. Would raising their rate by a few percentage points slow the economy by a measurable amount? Probably not."

But there also is another question, he said. "Is it good policy to expand social programs and have only high-income households pay? It's not so much an economics question as a political science question."