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Fighting Feudal Taxes

By Gar Alperovitz
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It's no secret that the Bush administration has showered high-income groups with federal tax benefits. Nor is it news that income and wealth is highly concentrated at the top. What have gone largely unnoticed, however, are new signs that outside of Washington, state by state, the public is quietly beginning to challenge the privileged position of those at the top.

The United States is the most inequitable advanced nation in the world. Every year since 1996 the top 1 percent has garnered more income than bottom 100 million Americans taken together. Wealth ownership is even more concentrated than income. Indeed, it is literally feudal: The top one percent of wealth holders owns roughly half of all financial and business wealth. The top 5 percent owns almost 70 percent of such wealth. In 2003 the top 1 percent alone received 57.5 percent of all capital gains, rent, interest and dividend income—up from 37.6 percent two decades earlier. A recent analysis by The New York Times and Citizens for Tax Justice found that 43 percent of the Bush dividend tax cuts went to taxpayers with incomes greater than $1 million, who make up a mere 1/10th of 1 percent of all taxpayers.

This extraordinary situation is bad not only for those at the bottom of the economic pyramid, but for the nation as a whole. You don't have to be a radical to recognize that, historically, huge political power regularly follows huge wealth, with disastrous implications for democracy.

Signs of growing public concern over the wealthy not paying their fare share can be found just beneath the radar of media attention in many parts of the country. Commonly, state tax practices follow and are linked to federal practices in numerous specific areas. In the five years since Congress voted to reduce the federal estate tax, however, 18 states—including conservative Kansas and North Carolina—and the District of Columbia have either decoupled (elected not to follow) their tax regulations from the federal approach or enacted new estate tax legislation.

Eighteen states and the District of Columbia have also decoupled from one of the largest modern corporate giveaways, the so-called Federal Production Activities (QPAI) Deduction. Thirty-one states have decoupled from a related corporate tax break, the appropriately-named "bonus" depreciation changes of 2002 and 2003.

New Jersey has gone further and imposed taxes on those making more than $500,000—using proceeds to offset property taxes that fall disproportionately on the middle and lower classes. In 2004 California voters overwhelmingly approved tax increases for people making above $1 million—with the proceeds earmarked for mental health programs. A follow-on initiative this year organized by actor/director Rob Reiner will propose taxes on the top 1 percent (individuals making more than $400,000 and couples making more than $800,000) to pay for quality preschool for all four-year-olds.

Another story missed by the media: A recent Connecticut poll found 77 percent of voters—including 63 percent of Republicans—in favor of a tax on those making more than $1 million. Although a proposed “millionaire's tax” did not pass in 2005, it produced enough support to enact what amounted to a “fall-back” proposal—a new estate tax and a temporary 20 percent corporate income tax surcharge.

Even in red-state Virginia the state senate approved special taxes on those making more than $100,000 and $150,000 in 2004 (as in Connecticut, the proposed levies helped in subsequent bargaining with the Virginia House of Delegates). Tennessee and New Hampshire have special taxes on interest and dividends which fall mainly on those making more than $100,000.

There have even been some grassroots stirrings directed at taxing wealth (not simply income). Florida is currently the only state with a modest "intangible" tax on stocks, bonds and other wealth—a provision of law which Governor Jeb Bush opposes but so far has been unsuccessful in abolishing.

Progressive policy think-tanks in two states have put forward much bolder strategies. In Washington the Economic Opportunity Institute has proposed a 1/2 percent tax on wealth, which (after exempting the first $1 million) would yield $477 million in annual revenue. The New Jersey Policy Perspective group has proposed 1/4 percent financial assets tax levied on those with financial holdings in excess of $2 million—i.e. only about 35,000 top asset holders statewide.

What is politically intriguing about these various strategies is not simply that they target the rich; it is that they do not divide the middle class politically from low and moderate income Americans. Unlike taxes that hit the (largely white) suburban 20 percent to generate benefits for lower income groups (commonly people of color), such strategies put the bottom 95 to 97 percent on one side of the political divide, with only a very small elite being targeted.

Driving all this, of course, is the search for new financial resources in an era of growing fiscal pain at all levels. The federal income tax, which once seemed as unlikely as some of the currently emerging elite income and wealth tax proposals, became law after a long build-up of concern and political initiative around the country. If the social and economic pain continues to build—and if America’s financial elites continue to garner such huge shares of the nation’s economic resources for themselves—we may well begin to see more far-reaching state and even federal changes than most observers currently imagine possible.

Gar Alperovitz is the Lionel R. Bauman Professor of Political Economy at the University of Maryland, College Park and the author of America Beyond Capitalism: Reclaiming Our Wealth, Our Liberty, and Our Democracy.