Taming Capital? Three Proposals

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The midterms have not simply given the Democratic Party a majority in the House; they have visibly expanded the range of political discourse, the so-called "Overton Window." This impact is particularly marked in terms of the issue of economic inequality. In the first two months of 2019, three major progressive – perhaps even socialist? – initiatives were proposed. In chronological order of release, these are Elizabeth Warren's wealth tax, Bernie Sanders' proposed changes to the Estate Tax, and HR 1000, guaranteeing a job to all willing and able to work, a true "right-to-work."

Each of these proposals impinges on what has long been seen as the prerogatives of capital. For those of us on the left, each raises a crucial question: to what extent it is possible to intervene in the market allocation of wealth and income in a capitalist political economy, perhaps even altering the rate and patterns of capital accumulation, and direct the resulting revenues for social rather than private ends.

I'll first look at Warren's wealth tax, followed by analyzes of Sanders Estate Tax revisions and then HR 1000.

Part I. An Annual Tax on Wealth: Elizabeth Warren

> Great accumulations of wealth cannot be justified on the basis of personal and family security.…Such inherited economic power is as inconsistent with the ideals of this generation as inherited political power was inconsistent with the ideals of the generation which established our government.
>
> Franklin Delano Roosevelt, 1935 message to Congress

Because it is unique in U.S. political discourse – and probably doomed whatever small chance she had of being the Democratic nominee for president – Warren's wealth tax proposal could be considered, at least in some respects, the most radical of the three Whether or not it is the most radical, it is certainly an unprecedented proposal for a nationally known political figure, because it places wealth, rather than income, at the center of the problem of extreme and growing inequality in the U.S.[i] In contrast, most of the work of Occupy, Fight for $15, living wage ordinances and other progressive movements, as well as proposals at the federal level for dealing with inequality, have been focused on the income disparity between the top 1% and the rest of us.

The idea behind Warren's proposal is conceptually simple: she calls for an annual tax on wealth with two rates: 2% on household wealth over $50 million and less than $1 billion and 3% on wealth over $1 billion.[ii] While the amount raised by the tax would be significant, the proposed rates are actually modest: not any larger – actually even smaller – than the rates charged by wealth "managers" and hedge funds that are levied on "assets under management," i.e., wealth that has been placed in their hands for investment allocation decisions.[iii]

There are several things to like about Warren's proposal.

(1) <u>It includes all wealth</u>. There are no loopholes, a frequent flaw in wealth taxes found in other countries. Households subject to the tax would pay their 2 or 3 percent on their invested capital such as stocks, bonds, and private business holdings and also on their non-productive capital such as yachts and $100 million penthouses in NYC. If these households did not shift their portfolio allocations, there would likely be some reduction in the rate of **private** capital accumulation. However, since evidence suggests that the rate of return to high wealth holders exceeds that for most investors, large fortunes could continue to grow, although more slowly, and investments continue to be made. If high wealth households wanted to sustain the rate of wealth accumulation they enjoyed prior to the implementation of the tax, they would have to shift some of their wealth portfolio out of high priced but non productive uses such as yachts, art collections, travel to exotic places, third and fourth homes, etc. and into productive sectors of the political economy.

(2) <u>It would lessen economic inequality</u>. The wealth share of the top 0.1% has tripled since 1978, from about 7% to 22%.[iv] Increased concentration of wealth in turn drives the growth of income inequality. Seeking to address income inequality through progressive taxation alone is a Sisyphean labor: we can try to meliorate some of the worst aspects of gross inequality by establishing steeply progressive tax rates, but the underlying dynamic of wealth accumulation recreates the extreme income inequality. This is especially marked at the top since, as Thomas Piketty argued, the returns to wealth, particularly large aggregations of wealth, have been higher than the overall growth rate of the economy.[v]

(3) <u>It addresses racial economic inequality</u>. While the median white/African-American family income gap is 1.4:1 and the white/Latinx is 1.7:1, the wealth gaps are 40: 1 and 22:1, respectively.[vi] The racial wealth gap is much more resistant to tax, minimum wage and other progressive economic policies than is the racial income gap. While her wealth tax is obviously

not a reparations policy, the results would be transferring some, overwhelmingly white held private wealth, to socially controlled wealth that could be used to the benefit of people of color.

(4) It raises substantial amounts of money. Estimates for the revenue raised are in the range of 1% of US GDP, or \$200-\$250 billion annually.[vii] About 75,000 households, less than 0.1% of the U.S. total, would be subject to the tax. These households would end up with a tax incidence of about 4.3% on their total wealth rather than the current 3.2%; this still leaves them under-taxed in comparison with the 7.5% tax rate on total wealth for the population at large.

(5) It is levied annually. Warren's proposal, like the property tax, is an annual levy, unlike the Estate Tax spearheaded by Theodore Roosevelt, discussed below. An annual wealth tax would establish the idea that "private" capital can be taken for public purposes.

It is this "invasion" of the prerogatives of capital that has provoked squeals of outrage from billionaires across the board, from the Koch brothers to Michael Bloomberg. It is also embodies Warren's argument that entrepreneurial success is not the result simply of individual talent and ability but is in large part the outcome of social institutions, from the educational system to the rules governing property. Thus all of us should share in that success – her wealth tax would be a significant step in that direction.

Part II. Attacking the Intergenerational Transmission of Privilege: Bernie Sanders

The problem of inequality was a focus of the Occupy movement. It was also the core 2016 campaign message of Bernie Sanders and is again found in his 2020 platform. Like Warren's wealth tax, Sanders understands that the obscene levels of economic inequality in the United States today cannot be countered simply by raising the minimum wage or creating a more progressive income tax structure. The concentration of wealth must also be addressed. And Sanders has put forth an important proposal for doing so – but also one that has a long history in the United States.

The Estate Tax is a century-old idea.

> The really big fortune, the swollen fortune, by the mere fact of its size, acquires qualities which differentiate it in kind as well as in degree from what is possessed by men of relatively small means. Therefore, I believe in a graduated income tax on big fortunes.
>
> Theodore Roosevelt, 1910

Over a century ago, under urging from Theodore Roosevelt (TR), Congress created the modern Estate Tax.[viii] TR understood the need for an Estate Tax in terms that apply equally or even more so today: the problem of an inherited aristocracy based on private capital accumulation, arising from some combination of good fortune and innovation and, very importantly, enabled by a wide array of institutional supports that allow an individual to amass large amounts of wealth, often in a single lifetime. As TR argued, inheritance of such wealth was, for succeeding generations, simply free and unearned privilege based on concentrated wealth. These inheritors of the next generation had no more legitimate claim to and were no more deserving of the wealth accumulated by their forebears than any other citizen. TR coupled this moral principle with the observation, true in both his time and our own, that the inheritors would all too often fritter away this windfall in lavish living – today think of Paris Hilton, or the $37 million dollar ranch that Bill Gates bought his daughter Jennifer because she likes to ride,[ix] etc.

But TR's concerns went deeper. He also saw, clearly, that the intergenerational transmission of privilege was a threat to democracy and, perhaps even more importantly, if the dynamic of private capital accumulation were left unchecked, to the very system that allowed such agglomerations to be created and then inherited. From the perspective of political economy, he was trying to insure that the dead hand of capital accumulated in the past would smother neither innovation in the present or the needs of the living for public goods and services in the future. Theodore Roosevelt, like his distant cousin Franklin Delano Roosevelt (FDR), was concerned with reforming capitalism, not with its overthrow.

U.S. conservatives have seldom seen the wisdom of TR's approach. To the contrary, the Right has long sought to defang the Estate Tax ("the Death Tax"), continually raising amounts that can be passed on tax-free and expanding loopholes in coverage. Even now, Sen. Mitch. McConnell has proposed eliminating the tax completely. This opposition is almost always articulated in terms of the farming family forced to sell off land to pay the tax – despite the reality that, challenged to find an example of such outcome, the American Farm Bureau (and the George W. Bush administration) failed to do so.[x] While the Right has failed to (so far) eliminate the Estate Tax, the rates and trigger levels have been chipped away such that today it applies to only inheritances of more than $11 million. In 2017, only 6,420 estates, 0.2% of the 2.7 million deaths in that year, owed any Estate Tax, at an average rate of 16.5%. Under the 2017 "reforms" to the tax, less than 2000 estates will likely pay any tax.[xi]

<u>Sanders' proposal is progressive.</u>

Bernie Sanders' proposal has two components: lowering the trigger for the Estate Tax and making the rates more progressive.

Sanders proposes to apply the Estate Tax to inheritances of $3.5 million or more and raise the marginal rate to 77% on inheritances of more than $1 billion. His plan has, of course, been attacked by the usual coterie of right-wing pundits as confiscatory, a detriment to innovation and investment, etc. It is, however, instructive to compare the proposed $3.5 million trigger to the rates specified in the 1916 legislation establishing the Estate Tax. The tax was levied on the value of any assets above $50,000, equivalent to approximately $1.3 million today – and the economy did not collapse.

Sanders' proposal would also make the Estate Tax much more progressive. The initial rate would be 45%, rising to 77% on assets above $1 billion. This top rate is not dramatically different than the Estate Tax rates in effect from the mid-1930s to the mid-1980s, when the top rate varied between 55% and 70%. However, his initial rate of 45% is significantly above the long-term lowest Estate Tax rate of 18%. An initial rate of 45% would significantly increase the revenue that the tax would raise. This result is particularly germane today because of the huge agglomerations of wealth that have accrued to billionaire financial and high tech elites over the past 30-40 years. As these enormously wealthy individuals face the end of their lives, we have two choices: we can acquiesce in the creation of a hereditary wealth-based aristocracy or we can take this opportunity to convert this private wealth into the social good. Sanders' proposed Estate Tax reforms would take us down the second path.

Sanders' goals – and they are ones that progressives and certainly all socialists should support – have echoes in the tax reforms of TR. Of course, extreme wealth, left untaxed, creates succeeding generations of inheritors who did nothing to create the wealth except get born into the right family. But, that is, in some respects the least of the problems in a country where the 3 wealthiest individuals own more wealth than the bottom 50% of households.[xii] The more fundamental problem of extreme wealth is the undermining of both democratic decision-making and the destruction of social cohesion.

There is now a large body of evidence that policies supported by the wealthy are more likely to be enacted by Congress than those supported by large majorities of the citizenry. Obvious examples include a more distributive tax system and a higher minimum wage, both of which are widely supported by the public as a whole but opposed by the top income and wealth households. From the other direction, high income households consistently see the deficit as a major problem while most of the citizenry ranks it below jobs, health care, etc.[xiii] The deficit remains a mainstay of congressional concerns; health care and job programs much less so.

However, just as destructive is the "winner-take-all" society created by the growing concentration of wealth (and income). In an everyone-for-themselves world, organizing for social change becomes more difficult, not just because of the mobilization of resources against change, but also because too many of the people we want to organize have trouble envisioning ***social***, as distinct from ***individual***, change.

Sanders' Estate Tax reforms, coupled with Warren's wealth tax, would not only generate resources needed for programs such as a Green New Deal and a universal health care system.

These proposals would also begin to reverse the dynamics of class power that have left many of us with less and our children with reduced life chances than in the past.

Part III. The Right to Work: Seeking True Full Employment – the "Jobs for All Act" (HR 1000)

In 2009 CPEG published “A Permanent Jobs Program for the U.S.” The report and analysis argued the case first, for job creation sufficient to reach actual full employment and second, for the necessity of direct federal job creation. As a member of the National Jobs for All Coalition,[xiv] CPEG worked with staff of then Congressman John Conyers, assisting them in drafting a full employment bill during the Great Recession. Although the employment situation today is much improved over 2009, CPEG continues to believe that true full employment should be a major policy goal. HR 1000, the recently introduced "Jobs for All Act," embodies this goal.

“Jobs for All” also has historical precedent in the United States.

The policy goal of full employment has a long history as part of the struggle to counter inequality, in this case through restructuring the market for labor. The current version, the Jobs for All Act (the “Act”; HR 1000) is broader in scope than many previous proposals.[xv] Before analyzing the Act, it is useful to outline the history of efforts to create a full employment economy in the United States. This section will be followed by a sketch of the major features of the Act and then a discussion of the class dynamics of the Act.[xvi]

In his 1944 State of the Union message, FDR called upon Congress to establish "the right to a useful and remunerative job in the industries or shops or farms or mines of the Nation." Since FDR spoke, there have been several efforts to assure jobs for anyone willing and able to work. The most important were the Employment Act of 1946 and the Humphrey-Hawkins Full Employment Act of 1978. A major component of both Acts was direct job creation by the federal government.[xvii]

Neither these Acts, nor the policies of the Federal Reserve, have created anything close to full employment, at least in the usual English language meaning of the term. Instead, what occurred has been a political redefinition, led by too many economists, of full employment as 4% unemployment =- and even then only counting those people actively seeking a job. How much difference does the definition make? In February 2019 the official unemployment rate was 3.8%, or 6.2 million people. However, there were another 4.3 million people working part time who wanted a full time job but couldn't find one, and 5.2 million people who wanted to work but were not actively seeking a job in the four weeks prior to the unemployment census. These individuals, by definition, are not included in the "unemployed." The three groups together totaled 15.7 million people, or 9.3% of the U.S. labor force.[xviii] A simple way to visualize this number: linked hand in hand, the 15.7 million people would stretch from San Diego, California, to Bangor, Maine – and half way back again.

<u>The "Jobs for All Act" (HR 1000)</u>

HR 1000 is designed to create a true full employment economy. Actual full employment would probably mean that the total unemployed at any point in time would be 1-2% of the labor force, not 10%.[xix]

The mission of the Act is summarized in the following sentences:

> "Congress has also declared and established as a national goal the fulfillment of the right to full opportunities for useful paid employment at fair rates of compensation of all individuals able, willing, and seeking to work." Accomplishing this goal will require "direct job creation by the Federal Government."

The key features of the Act are as follows:

(1) The establishment of a National Full Employment Trust Fund. The Fund is charged with funding the employment of workers obtaining jobs under the provisions of the Act.

(2) Revenues for the Fund will come primarily through a financial transaction tax (FTT). The FTT will be levied on stocks, debt instruments, derivatives, and changes in ownership for trust accounts.[xx] If the FTT revenue is insufficient to fund the jobs created, the Fund may borrow from the Federal Reserve.

(3) Jobs are created through Employment Opportunity Grants (EOG). EOGs may be obtained by a wide range of public and non-profit entities but not by for-profits businesses.

(4) Priorities for job creation include affordable housing, renovating public facilities such as parks and schools, human services such as child and elder care, environmental initiatives, and the arts.

(5) Wages for workers employed by under the Act will be comparable to those for other public sector or outsourced public sector workers doing equivalent of similar work. Thus the Act is not providing employment at a minimum wage but much closer to a living wage.

(6) Finally, employment under the Act cannot not be used to displace workers already doing these jobs.

<u>Michael Kalecki, the Power of the "Sack" – and NonReformist Reforms</u>

There is much to be enthusiastic about in HR 1000 – and I urge progressives of all persuasions should seek to have their congressional representative sign on as a co-sponsor of the bill. The proposed jobs are not minimum wage jobs; the requirement that pay be equal to public sector employees doing equivalent work would provide people employed under the with a living wage.[xxi] This salary level may disappoint someone working in Silicon Valley or Wall Street who is laid off and is hired under the terms of the Act, but they will not starve. Because the proposal includes a funding source, the MMT controversy does not impact the program.[xxii] Further, the choice to fund by way of an FTT will inevitably reign in the role and power of the financial sector, another positive outcome.[xxiii] And, finally, the focus on work that grows the "social wage" addresses the need to rebuild our public infrastructure as well as expanding the care work sector. In all of these respects HR 1000 is true to CPEG's original vision.[xxiv]

What about the politics of the proposal? In 1943 Michael Kalecki[xxv] wrote an article titled "The Political Aspects of Full Employment."[xxvi] In this article, Kalecki asked whether full employment was possible in a capitalist political economy. He concluded that, from a narrow economic perspective the answer was yes; but he went on to suggest that a program of true full employment, such as HR 1000, would face significant political resistance because it is a challenge to class power. A full employment program would undercut the power to hire and fire that is a prerogative of capital.[xxvii]

Now, it is important to be clear: a program such as HR 1000 does not destroy that power. After all, as noted above, many higher paying jobs would be largely unaffected. Thus HR 1000 does not decommodify labor. But it would sharply curtail the exercise of class power in the lower and middle levels of the income and job hierarchy. Near the end of his article Kalecki writes, "If capitalism can adjust itself to full employment, a fundamental reform will have been incorporated in it. If not, it will show itself an outmoded system which must be scrapped."

Kalecki and other left critics of full employment policies in capitalist political economies are certainly correct in arguing that capital will resist such a program. But does that doom it – or is that precisely why we should fight for it? Yes, a true full employment program such as outlined in HR 1000 will pose a challenge to class power. And it is sometimes argued that, if we can get full employment passed, we should just go for broke, implement Marx's desire to decommodify labor completely and institute full (democratic) socialism. But that ignores the process by which change, even revolutionary change, is likely to happen in the U.S. (and other wealthy capitalist political economies).

Consider the following. When queried, a majority of people in the U.S. agree with the statement that the government should assure that everyone willing and able to work can get a job.[xxviii] That does not mean, however that these citizens are ready to abolish capitalism tomorrow.

It seems to me that the question posed by Kalecki is exactly the way to approach the issue. Suppose that capitalists decide they cannot adjust to full employment; their response, then, to the full employment program – that enjoys the support of a majority of the population – would likely then be an economic and/or political strike by capital. An ecomomic strike would involve refusing to invest in new technology, to hire new workers, or perhaps even lay off existing employees and curbing production of necessary goods and services. The political attack would entail a massive disinformation campaign in media controlled by elites, seeking to blame economic problems created by the capital strike on the very full employment program instituted to provide jobs. But, a program with the support of the majority who think that government *should* assure a job for anyone willing and able to work would, I think, quickly and dramatically increase the numbers of those who are willing to say, "Yes, it is an outmoded system and must be scrapped."

Then, rather than retreat, many, perhaps most, may be willing to go further. That's what makes HR 1000 a non-reformist reform and one that should be embraced by all progressives and certainly all socialists.

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[i] In 2000, Donald Trump proposed a one-time tax on wealth holdings of over $10 million to pay down the federal debt. One could perhaps also point to Upton Sinclair's EPIC campaign in California (1934), since part of its program was to take over idle factories and land if the owner failed to pay taxes.

[ii] I'm not going to discuss the question of whether a more graduated set of rates would be preferable. This is an essay on the concepts rather than the specifics of the proposals.

[iii] See Barron's: https://www.barrons.com/articles/understanding-elizabeth-warrens-wealth-tax-proposal-51549560874

[iv] Note - this is similar to the increase share of income going to the top 1% - but here we are talking about only a fraction of that group.

[v] Whatever the theoretical merits of Piketty's argument that the relative rates of growth of wealth vs the economy is a long term economic law, it is an accurate empirical description of what has happened in recent decades in the U.S.

[vi] See https://itep.org/the-u-s-needs-a-federal-wealth-tax/

[vii] See http://gabriel-zucman.eu/files/saez-zucman-wealthtax-warren.pdf for the 1% of GDP estimate

[viii] There was an earlier version of an Estate Tax in effect from 1797 – 1802; during the Civil War Congress enacted a version of the Estate Tax; it as repealed in 1870.

[ix] https://www.scmp.com/magazines/style/people-events/article/2171154/how-do-children-billionaires-spend-their-parents-money

[x] The last sponsor (2018) of the attempt to repeal the Estate Tax, Sen, John Thune (R-SD) was unable to identify any farm that had been forced to sell as a result of the tax: https://www.cheatsheet.com/politics/why-do-republicans-want-to-repeal-the-estate-tax.html/

[xi] https://www.cbpp.org/research/federal-tax/policy-basics-the-federal-estate-tax

[xii] https://inequality.org/wp-content/uploads/2017/11/BILLIONAIRE-BONANZA-2017-Embargoed.pdf; the three are Jeff Bezos, Warren Buffet, and Bill Gates.

[xiii] See for example, https://www.cambridge.org/core/journals/perspectives-on-politics/article/testing-theories-of-american-politics-elites-interest-groups-and-average-citizens/62327F513959D0A304D4893B382B992B. And the NYT just reported on widespread support for "taxing the rich."

[xiv] Now National Jobs for All Network

[xv] The National Jobs for All Act is more formally labeled the "Humphrey-Hawkins 21st Century Full Employment and Training Act of 2019."

[xvi] A sketch, since the Act takes up 62 pages. You can read it in total here: https://www.congress.gov/bill/116th-congress/house-bill/1000/text

[xvii] The major efforts are described by Gertrude Schaffner Goldberg, a board member of NJFAN here: http://dollarsandsense.org/archives/2018/1118goldberg.html

[xviii] See https://njfac.org/index.php/2019/03/08/unemployment-data-february-2019/ for an account of these numbers.

[xix] There will always be some people unemployed due to job changes, etc. Thus the 1 - 2% number.

[xx] The proposed FTT exempts purchases and sales of mutual fund shares. This may be a significant reduction in potential revenue and could possibly lead to various schemes to game the FTT levy.

[xxi] Of course public sector employees are, on average, paid less than private sector workers with equivalent education and experience.

[xxii] MMT advoates have argued that the ability of governments that control their own currency to create additional funds is substantially more than the conventional wisdom about deficits and inflation asserts.

[xxiii] Full disclosure: I worked in finance for almost q quarter century in both derivative and cash markets.

[xxiv] CPEG's original paper is here: https://docs.wixstatic.com/ugd/30e282_2bde05cbdf6245fcad4ae0c4bd1b84c9.pdf

[xxv] Kalecki was one of the most brilliant economists of the 20th century, serving as an advisor to various governments including Cuba and his native Poland.

[xxvi] https://delong.typepad.com/kalecki43.pdf;

[xxvii] Joan Robinson raised similar concerns in her post-WWII pamphlet "The Problem of Full Employment; https://cpb-us-e1.wpmucdn.com/blogs.roosevelt.edu/dist/f/76/files/2012/12/Robinson-on-the-Problem-of-Full-Employment.pdf

[xxviii] Among other sources: https://www.thenation.com/article/why-democrats-should-embrace-a-federal-jobs-guarantee/