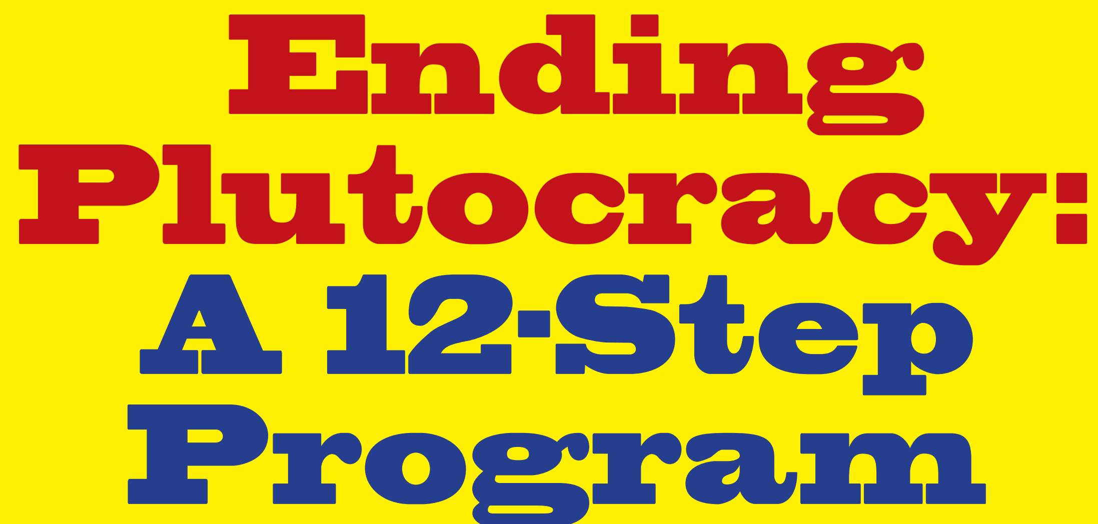

Sarah Anderson
& Sam Pizzigati

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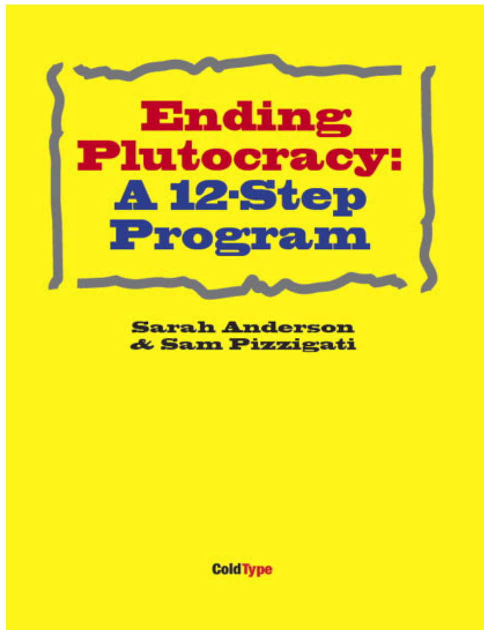

Sara Anderson has written numerous studies, articles and books on global corporations and the social and environmental impacts of trade and investment liberalization. She sits on the steering committee of the Alliance for Responsible Trade and served on the staff of the International Financial Institutions Advisory Commission ("Meltzer Commission"), which presented their recommendations for World Bank and IMF reform to the U.S. Congress in 2000.

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ColdType

WRITING WORTH READING FROM AROUND THE WORLD

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OUR forebears struggled to survive in world dominated by the superrich. Now it's our turn.

America's first Gilded Age didn't merely end. Progressives had to fight to end it. Our forebears did battle, decade after decade, for proposals that dared to "soak the rich."

How quaint that phrase now seems. Progressives today do talk about making the superrich pay their "fair tax share"; but we no longer dare imagine an America without the superrich. We have become addicted to a politics that ignores the power of the fabulously wealthy to define – and distort – our nation's political agenda.

How can we end this addiction? In the twelve-step spirit of dependency-busters everywhere, we offer a dozen policy approaches that can help slice America's superwealthy down to democratic size. To help us rebuild our plutocracy-busting self-confidence, we begin with the somewhat more winnable.

Step 1: Admit we are powerless unless we learn more about how concentrated our nation's wealth has become.

Back in 1907 Joseph Pulitzer ended his publishing career with a farewell that urged readers to forever beware "predatory plutocracy." He had started that career, years earlier, exposing wealthy taxdodgers. Disclosure has been a prime weapon in the progressive arsenal ever since.

* Require government contractors to reveal how much their executives make. The Securities and Exchange Commission currently requires publicly traded companies to reveal how much their top five executives are making. But privately held companies face no such mandate, and the CEO of private security giant Blackwater last fall refused to divulge how much he has personally pocketed from his company's contracts in Iraq. One bill now before Congress, the Gov-

ernment Contractor Accountability Act, would force companies like Blackwater to disclose their top executive pay.

* Require corporations to report CEO-worker pay gaps. CEOs now take in, as a share of corporate earnings, twice as much as they walked off with just a decade ago. The labor share of national income, meanwhile, has shrunk to record lows. Which companies are shoving the most cash up the corporate flow-chart? If corporations were required to annually document the gap between their highest- and lowest-paid employees, we would know.

* Require the super-wealthy to make their tax returns public. In 1934 early New Dealers enacted legislation that made the incomes of wealthy people and the taxes they pay a matter of public record. But the super-rich quickly launched a fervid PR campaign that attacked the new statute as an open invitation to kidnappers. In an America still reeling from the infamous Lindbergh baby snatching, that claim gave lawmakers a convenient cover for repealing this tax sunshine mandate. In 2005 America's top-earning 400 paid a paltry 18.2 percent of their incomes in federal tax. It's time to let the sunshine back in.

Step 2: Trust in a power greater than CEOs and their buddies.

America's top 0.01 percent of taxpayers have seen their collective income quadruple, after inflation, over the past two decades. Corporate executives account for about a fifth of that income. How have

CEOs engineered their awesome take-homes? They essentially pay themselves. They sit on each other's corporate boards and rubber-stamp executive pay plans that come from consultants who know where their bread's buttered. Democratizing corporate governance could help end this enabling.

* Give shareholders a "say on pay." The House of Representatives voted last year to give shareholders the right to vote on executive compensation. But these votes would be advisory only, and such non-binding votes elsewhere - in Britain, for instance - haven't done much to break executive pay spirals. Still, the prospect of shareholder "no" votes could dampen the willingness of corporate boards to keep signing blank checks. The Senate has so far stalled on "say on pay."

* End Kremlin-style corporate board elections. To really rein in CEO pay, shareholders need more than an advisory say on pay. They need a say on who sits on corporate boards. Corporate board elections currently sport all the democratic trimmings of Leonid Brezhnev's Supreme Soviet, complete with fixed slates. In 2003 the SEC proposed giving shareholders a halfway meaningful right to vote for alternative candidates. But fierce opposition from the Business Roundtable, the nation's leading CEO club, nyeted this attempt at corporate perestroika.

* Give all stakeholders a real corporate voice. Shareholders, suitably empowered, could help check executive excess. But workers and their communities have just as much stake in CEO pay decisions as shareholders because over-the-top pay plans give CEOs an incentive to pump up short-term bottom lines at the expense of

long-haul enterprise success. Mandating worker and community representation on corporate boards could institutionalize a voice for all corporate stakeholders.

Step 3: Don't let the tax code enable executive excess.

Corporate boards don't deserve all the blame for excessive executive compensation. Lawmakers have been enablers, too. They've littered the tax code with provisions that encourage outsized rewards at the top of the corporate ladder. Progressives ought to be launching an anti-littering campaign.

* Eliminate stock-option accounting sleight-of-hand. Corporations today can legally claim tax deductions for executive stock options that run up to ten times higher than the cost of these options that corporations record in their annual financial statements. In 2005, just-released IRS figures show, the gap between what executive options cost corporations and what corporations deducted off their taxes for these options hit $61 billion. Senator Carl Levin has introduced legislation that would shut this loophole and raise billions annually in new tax revenue.

* End bankruptcy bonanzas. In 2005 Congress banned companies in bankruptcy proceedings from giving executives retention and severance bonuses that run over ten times the bonus that workers receive. But the new law doesn't limit "performance-based" bonuses, and corporations are sailing through this loophole. Calpine, a California energy company, exited bankruptcy this past winter with a workforce cut by nearly a third. The company's CEO exited with a $10.9 million bonus.

* Cap tax-free "deferred pay." Of Fortune's top 1,000 US companies, 90 percent have set up deferred-pay accounts that let top executives shield unlimited amounts of compensation from taxes. Target CEO Robert Ulrich, for example, held $133.5 million in his deferred-pay account at the end of 2006. By contrast, the cubicle crowd faces strict limits on how much income can be deferred via 401(k) plans? $15,500 is the max for most workers. Corporate lobbyists last year squashed a Senate effort that would have placed a modest $1 million cap on executive pay deferrals.

Step 4: Insist on a searching IRS inventory of super-wealthy wallets.

Today's IRS agents, OMB Watch reported earlier this year, are actually spending more time auditing poor taxpayers than rich ones. Progressives ought to be demanding an IRS that zeroes in on the awesomely affluent.

* Shut down offshore income hideaways. A University of Michigan study estimates that the super-rich are dodging as much as $50 billion per year in federal taxes by stashing income overseas. Arbitrary time limits on IRS investigations help make recovering these lost billions next to impossible.

* End charitable giveaway scams. Wealthy Americans are routinely overvaluing the artwork they donate to museums - and the IRS remains too understaffed to stop them. America's rich, overall, claim about $1 billion a year in tax write-offs for donated artwork. Let's stop subsidizing art museum vanity wings.

* Put the kibosh on wealth warehousing at elite alma maters. Super-rich alums are saving beaucoup bucks in taxes by pouring enormous wealth into elite private universities. Harvard's endowment last year hit $34.6 billion - at a time when public colleges are cutting programs and hiking tuitions. Elite endowments pay a mere 2 percent excise tax on their investment earnings. They should pay at twice that rate - and even higher if they don't spend, on education, at least 5 percent of their endowment value a year.

Step 5: Clamp down on hedge-fund kingpins.

Last year fifty hedge-fund managers took home more than $210 million each. Perhaps even more amazing: hedge fund office receptionists pay more of their incomes in taxes than their bosses. How is that possible? A good bit of hedge-fund manager income comes as a cut of the profits the funds generate. Our financial royals can claim this cut as a capital gain, a neat maneuver that chops their tax rate from 35 to 15 percent. Last year an attempt to shut this hedge and private equity fund loophole died in the Senate.

Step 6: Make amends to those who truly earn their income.

We could skip Step 5 if we simply taxed "earned income" - the money people make from actual labor - at the same rate as the "unearned income" - that comes from sitting back and letting money do all the heavy lifting. America's richest regularly realize vast amounts of this unearned income, mostly through dividends and capital gains from trading stocks, bonds and other forms of property. On these unearned billions, they pay taxes at a 15 percent rate, less than half the 35 percent top rate on ordinary earned income.

Step 7: Treat outsize d pay as a defect of corporate character.

Our tax law lets corporations claim, as tax deductions, reasonable business expenses. But what's reasonable? Corporations can today deduct, as a "reasonable" expense, whatever they shell out in excessive executive pay, so long as they label that excess a reward for "performance." Representative Barbara Lee's Income Equity Act, a bill introduced last year, would cap the executive pay that corporations can deduct at twenty-five times the pay of a company's lowest-paid workers. Maryland State Senator Paul Pinsky has introduced similar legislation at the state level.

Step 8: Awake to the simplicity of tax surcharges.

Debating tax code ins and outs can take time. In the past, progressives have used a shortcut to hike taxes on the financially fortunate: the surcharge, a simple add-on to the tax owed under existing law. Representative Charlie Rangel last year proposed a 4 percent surtax on income over $200,000 and a 4.6 percent surcharge on income over $500,000, hikes that would raise $832 billion over ten years. Commentator Nicholas von Hoffman has urged a somewhat edgier surcharge, a special "Victory Over Terror" levy that would subject incomes over $5

million to a 20 percent extra charge that would expire only "when the war on terror is won or declared over."

Step 9: Seek a more progressive reckoning with the dearly departed.

In 2001 the first Bush tax cut included a phaseout of the estate tax, our nation's only levy on inherited wealth. But after 2010, unless Congress acts, the estate tax on America's largest bequests will revert to pre-W levels. Estate tax foes, to prevent that, want estate tax rates slashed to mere nuisance status. If they succeed, the last three decades of excess in Corporate America will turn into a skyscraper-high foundation for a new aristocracy that would have the wealth - and power - to frustrate progressive social change for generations to come. Representative Jim McDermott has a better idea. He's promoting legislation that would place a 55 percent estate tax on fortunes greater than $10 million.

Step 10: Restore sanity to the taxation of wealth.

Typical American families have little net worth outside the value of their homes. The super-wealthy, even those with multiple mansions, hold the vast bulk of their wealth in financial investments. Normal property taxes leave this financial wealth totally untaxed. The result: average Americans pay a tax on their wealth. Rich Americans don't. About a dozen European nations sidestep this double standard by levying a small annual tax on all wealth holdings. In the United States, economist Edward Wolff has calculated, a wealth tax that exempted the first $250,000 of household wealth, then imposed a graduated rate that topped off at 0.8 percent on fortunes over $5 million, would raise about $60 billion a year.

Step 11: Leverage the power of the public purse.

Our tax dollars do not go, by law, to companies that increase racial or gender inequality. We deny government contracts to companies that discriminate, in their employment practices, by race or gender. So why should we let our tax dollars go to companies that increase economic inequality? Hundreds of billions of taxpayer dollars are today flowing annually to companies that pay their CEOs more for a day's work than their workers make in a year. One antidote: We could deny federal contracts or subsidies to companies that pay their top executives over twenty-five times what their lowest-paid workers receive. One bill now pending in Congress, the Patriot Corporation of America Act, steps in this direction. The bill would extend tax breaks and federal contracting preferences to companies that meet benchmarks for good corporate behavior. Among the benchmarks: not compensating any executive at over 10,000 percent - 100 times - the income of a company's lowest-paid full-timer.

Step 12: Admit to ourselves that maybe Ike had it right.

In Eisenhower America income over $400,000 - the equivalent of less than $3 million today - faced a top marginal tax rate of 91 percent. Our current top rate: 35 percent. In 2004, after exploiting loopholes,

taxpayers who took home more than $5 million paid an average 21.9 percent of their incomes in federal tax. Back in 1954 the federal tax bite on taxpayers with comparable incomes averaged 54.5 percent. How much revenue could be raised by a significant tax hike on America's highest incomes? If the top rate were raised to 50 percent on all income between $5 million and $10 million and 70 percent on income above $10 million, federal revenues in 2008 would jump $105 billion and the nation's richest 0.1 percent would still be paying less in taxes than they did under Ike.

A century ago, progressives never actually agreed on any one set of proposals to end rule by the rich. They vigorously - and constantly - debated competing proposals. That debate needs restarting. We hope this list helps.

We also need to recognize that blueprints for social change don't go anywhere without social changers, without organized pressure from below. In America's first great triumph over plutocracy, that pressure came in the main from a resurgent labor movement. To repeat that success, labor once again needs to be surging, one big reason why initiatives that aim to help unions organize - like the Employee Free Choice Act campaign - have a key role to play in any plutocracy-busting offensive. Can such an offensive succeed? Why not? Our forebears faced a plutocracy more entrenched than ours. They beat that plutocracy back.

Our turn. **CT**

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