The Washington Post

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The case for higher taxes on investments

By Harold Meyerson, Tuesday, April 19, 8:00 PM

If you assume that the United States of America needs to fund its government at all — though a number of Grover-Norquist-addled Republicans apparently don't — may I gently suggest that we're looking for the bucks in all the wrong places.

Not that Democrats are wrong to want to close income-tax loopholes for corporations and the rich. Given the stunning levels of inequality that increasingly misshape our economy, raising income taxes on the wealthiest among us is essential if we wish to preserve the national defense, schools and secure retirements.

Essential, but not enough. Taxing the income from Americans' labor doesn't yield what it once did. We need to raise the taxes on Americans' investments, too.

From 1959 through 2007, the share of Americans' personal income that came from wages and salaries declined from 68 percent to 57.6 percent, according to the Economic Policy Institute's newly released "The State of Working America." Meanwhile, the share from dividends rose from 3.3 percent to 7.1 percent and the amount from interest from 5.8 percent to 11.3 percent. The share of income from realized capital gains rose during those years from 1.6 percent to 8.2 percent.

Yet not all types of investment income rose during that time. The share of income from rents declined from 4.2 percent to 1.3 percent, and proprietors' income — that accruing to owners of farms and small businesses — declined from 13.2 percent to 9.8 percent.

The big money, in other words, was in big investments, and it went overwhelmingly to the rich. In 1962, the wealthiest 1 percent of American households had 125 times the wealth of the median household. By 2009, that had increased to 225 times the median.

And yet, we tax income derived from long-term capital gains and dividends at a rate of 15 percent, while we tax income from Americans' labor at a rate that goes up to 35 percent. I'm not arguing that 35 percent is too high for the tax on the wealthiest Americans' labor. The U.S. economy has been far less robust in recent decades — in terms of job creation, income gains and intergenerational mobility — than in the decades after World War II, when the tax rates on top incomes were double those of today.

But why tax capital income at a lower rate? Only bankers and the depraved believe that income from other people's labor rates a moral discount over income from one's own labor. The case for taxing

capital at a lower rate is economic: that low tax rates on investment spurs more investment, and more jobs, in the American economy.

Plainly, that's no longer the case. The dividends that go to shareholders in America's major corporations increasingly derive from investments those corporations make overseas. New data from the Commerce Department show that U.S. multinationals eliminated the positions of 2.9 million American employees during the past decade, while adding 2.4 million employees in other lands. As markets, mercantilist incentives and low-wage labor pools expand abroad, America's marquee businesses are expanding abroad, too, not at home. Taxing dividend income at a lower rate than labor income does indeed create jobs — overseas. Defenders of continuing these lower rates for investment need to explain why the tax code should subsidize domestic disinvestment.

They should also explain how taxing labor income at a higher rate than investments will provide the revenue we need as the share of working Americans continues to shrink. The percentage of Americans of all ages who are employed today is just 45.4 — the lowest level since 1983, USA Today reported last week. The percentage of employed working-age women rose to 57 percent in 1995 and has flat-lined since. The percentage of employed working-age men, which stood at nearly 85 percent in the early 1950s, is below 65 percent today.

America is caught in an economic maelstrom. Our largest private-sector employers disinvest domestically, reducing both the size of their workforce and its paychecks. The level of revenue that the government can collect from workers' income isn't going to expand, even though the nation's needs (and its out-of-control medical costs) are sure to grow.

There are two ways to break this vicious circle. First, as private-sector employment continues to decline, the public sector will have to step in to create jobs. Second, we have to tax income and wealth derived from capital investments at a rate not just as high but higher than that we levy on work. There's no case for rewarding income that comes from selling America short.

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