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"Reducing Inequality to Sustain America"

This year, inequality is receiving a great deal of attention, and the focus is mainly on income inequality.

However, we would like to, as a longer term issue, raise concern about tax and wealth inequality. There are at least two aspects to these inequalities: (1) unbalanced tax burdens experienced by states; and (2) a tax-wealth gap for individuals. Both have implications for national sustainability.

On unbalanced tax burdens experienced by states, it is instructive to note that certain states receive a very favorable share of federal outlays relative to the taxes that those states pay into the national treasury.[1] For example, for fiscal year 2013, South Carolina, North Dakota, Alabama, and Mississippi were among states that had Federal outlays-to-taxes paid ratios that exceeded 2.0 by a sizeable margin. At the same time, the following states were among those that had outlays-to-taxes paid ratios that were less than 1.0: Maryland, Delaware, Nebraska, and Illinois.

A search of the Internet reveals that there have been considerably more recent discussions about succession from the US by the latter states when compared with the former. While these discussions have been mainly rhetorical, they may be viewed as having some basis when one considers the aforementioned outlays-to-taxes paid ratios.

The tax-wealth gap, on the other hand, is characterized by the following reality: While the wealthiest quintile of households possess about 90% of the nation's wealth, they only pay about 70% of the nation's taxes.[2]

This may not sound like much of a gap on its face. However, one must consider that, over the very long term, taxes must be raised to pay the nation's actual and contingent liabilities (debt), which exceed $200 trillion according to Boston University professor and famous economist Laurence

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[1] The source of data on Federal outlays is www.usaspending.gov (we selected "all" spending types on the "Summaries" page and the state "Location" (downloaded on August 7, 2014)). Admittedly, this website excludes certain important types of Federal government spending; however, the data that are provided are sufficient to paint a realistic picture of total spending for comparison purposes. The source of Federal taxes paid (collected) is the Statistics of Income Division of the Internal Revenue Service, US Department of the Treasury (http://www.irs.gov/uac/SOI-Tax-Stats-Gross-Collections,-by-Type-of-Tax-and-State,-Fiscal-Year-IRS-Data-Book-Table-5 (downloaded on August 7, 2014).

[2] The 90% statistic is actually 88.9%, is for 2010, and is from University of Southern California Prof. G. William Domhoff's "Who Rules America?" (Table 2); http://www2.ucsc.edu/whorulesamerica/power/wealth.html (downloaded August 7, 2014). The 70% statistic is actually 68.8%, and is from the US Congressional Budget Office's "The Distribution of Household Income and Federal Taxes, 2010" (Table 3, p. 13); http://www.cbo.gov/publication/44604 (downloaded on August 7, 2014).

Kotlikoff.[3] If the wealthy pay only 70% of those taxes, which is inconsistent with their wealth holdings, while the poor and middle class pay a share of taxes (10%) that is consistent with their wealth holdings, then a tax-wealth gap of over $40 trillion arises.

Should the wealthy assume this burden, or should it be borne by the poor and middle class?

Looking into a crystal ball, what we see unfolding for the tax-wealth gap is that the wealthy are unlikely to be very patriotic when it comes to facing an increased tax burden. Logically, they are likely to seek less burdensome tax havens elsewhere in the world.

The point here is that as the nation goes forward it has a tendency to expand federal programs that often require borrowing. Ultimately, the debt associated with that borrowing must be serviced or retired through taxes. However, at the same time, wealthy citizens become increasingly international and less bound to US soil. It is likely that these wealthy citizens will come to view the tax-wealth gap as too burdensome for them and their posterity. They may respond by pulling up stakes and relocating abroad.

Whether we are concerned about the unbalanced tax burden faced by states or the tax-wealth gap faced by citizens, it becomes obvious that greater future tax burdens that are precipitated by expansive Federal government spending create an unstable environment.

As we look forward to the 2016 election, it makes sense that we would have as a key criterion that our presidential candidate advocate policies for halting unfunded Federal government spending for new programs, and for reducing Federal government borrowing. These two policies will reduce future taxes, contribute to a reduction in the imbalance in states' Federal outlays-to-taxes paid ratios, and will slow growth in the tax-wealth gap.

By beginning to address these inequalities, the nation can improve prospects for its long-term sustainability.

B. B. Robinson

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[3] See Laurence Kotlikoff's "America's Hidden Credit Card Bill," in *The New York Times*, (The Opinion Page), July 31, 2014.