Editorial: The tax bill that inequality created

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Most Americans know that the Republican tax bill will widen economic inequality by lavishing breaks on corporations and the wealthy while taking benefits away from the poor and the middle class. What many may not realize is that growing inequality helped create the bill in the first place.

As a smaller and smaller group of people cornered an ever-larger share of the nation's wealth, so too did they gain an ever-larger share of political power. They became, in effect, kingmakers; the tax bill is a natural consequence of their long effort to bend American politics to serve their interests.

As things stand now, the top 1 percent of the population by wealth — the group that would primarily benefit from the tax bill — controls nearly 40 percent of the country's wealth. The bottom 90 percent has just 27 percent, according to the economists Thomas Piketty, Emmanuel Saez and Gabriel Zucman. Just three decades ago these numbers were almost exactly the reverse: The bottom 90 percent owned nearly 40 percent of all wealth. To find a time when such a tiny minority was so dominant, you have to go back to the Great Depression.

As kingmakers, rich families have supported candidates who share their hostility to progressive taxation, welfare programs and government regulation of any kind. These big-money donors have pushed the Republican Party in particular further to the right by threatening well-funded primary challenges against anybody who doesn't toe the line on tax cuts for the rich and other pro-aristocracy policies. The power of donors has contributed to political polarization and made the federal government less responsive to the needs of most voters, a new book by Benjamin Page of Northwestern University and Martin Gilens of Princeton University argues.

The power of the one-percenters may help explain why President Trump, who ran as a populist, has not only abandoned any pretense of fighting for the working class but also joined Republicans in Congress in ripping up regulations that protect families and the environment — in order to help business tycoons. Together, they've tried to repeal the Affordable Care Act. Its repeal would have deprived millions of people of health insurance while trimming taxes for high-income families. Now, they want to cut taxes on corporations and offer new loopholes to the rich, even if that means hurting their own constituents by limiting the ability of middle-class families to deduct state and local taxes on their tax returns.

Most political campaigns now rely on a small group of wealthy donors who give tens of thousands of dollars or more per election cycle. About 40 percent of contributions to campaigns during the 2016 federal election came from an elite group of 24,949 donors, equivalent to 0.01 percent of the adult population. In 1980, the top 0.01 percent accounted for only 15 percent of all contributions, according to an analysis by Adam Bonica, a Stanford professor, and his collaborators.

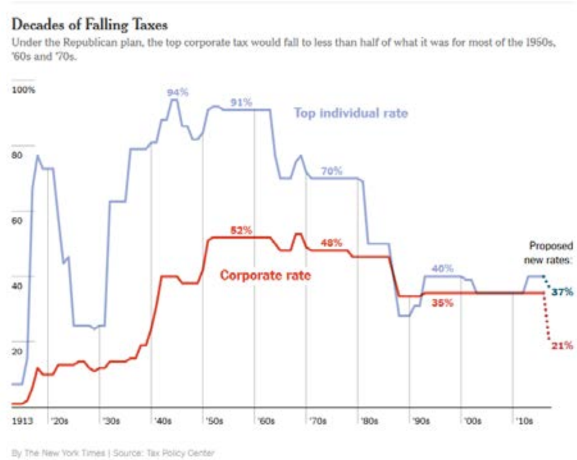
Of course, the growing importance of wealthy donors is not exclusively a Republican phenomenon. Democratic candidates have also benefited from the largess of wealthy donors like George Soros, Tom Steyer and James Simons. But on economic and tax issues, big-money liberal donors have not really shoved their party to the far left. Donations from Wall Street and corporate America have, in fact, pushed many Democrats to the center or even to the right on issues like financial regulation, international trade, antitrust policy and welfare reform.

Further, liberal donors have been nowhere near as skillful at coordinating their giving as conservative donors have been. No liberal organization comes close to rivaling the network of donors and political activists created by the conservative Koch brothers, says Theda Skocpol, a professor at Harvard, who has written extensively about these issues. The Koch network has spent years methodically pushing state and federal lawmakers to cut regulations, taxes and government programs for the poor and the middle class. The leading donor network on the left, the Democracy Alliance, is smaller and much less successful.

Even allowing for money "wasted" on losing candidates and failed causes, the donor class has notched many impressive wins. Tax rates have fallen substantially, with the top marginal income tax rate now just below 40 percent, from 70 percent when Ronald Reagan won the presidency. The top corporate tax rate has dropped to 35 percent, from 46 percent in 1980, and many businesses pay an effective rate that is much lower than that. While supply-side economics remain mostly a Republican fiction, politicians from both parties have supported the effort to reduce taxes on capital — profits, capital gains and dividends — on the grounds that this would spur investment and make American businesses more competitive.

But the cuts have done little to bolster the economy or the working class. In fact, incomes have stagnated, and workers have been forced to part with a larger share of their pretax earnings in the form of payroll taxes.

Meanwhile, where are the political champions of poor Americans? Whoever they are, they haven't been producing results. Wages for the poorest have languished, partly because Congress has been so slow to raise the minimum wage — $7.25 an hour since 2009 — that its purchasing power is now about 10 percent less than it was in 1968. Lawmakers and conservative judges have also undermined workers by making it harder for them to unionize, so they are not in a position to demand better pay and better working conditions.



This tax bill would exacerbate all these trends. The Urban-Brookings Tax Policy Center and the Joint Committee on Taxation, both respected, both nonideological, say the bill would primarily benefit the wealthy and would leave most poor and middle-class Americans worse off over the long run. That's without Congress doing anything else to widen the gap. But even now, Mr. Trump and Republicans in Congress are talking about cutting government programs like Medicare, Medicaid and Social Security next year to help make up for the more than $1 trillion the tax bill would add to the federal deficit.

Inequality in America does not have to be self-perpetuating. When people turn up at the polls, as they did recently in Alabama, they can produce unexpected results. That's why Republican lawmakers might want to think again about whether they want to be the means through which their wealthy donors pull off this heist.