



From Work to Wealth and Back Again

922 N. 3rd Street, Harrisburg, PA 17102 • www.pennpolicy.org • info@pennpolicy.org

By Marc Stier

June 28, 2024

From Work to Wealth and Back Again:

Americans suffer because we reward wealth more than work.

**Here's how we got here and how we can create an economy
that works for all of us.**

Introduction

The pursuit of tax justice is now central to the work of both the Pennsylvania Policy Center and our advocacy arm Pennsylvanians Together and is the theme of our People's Budget Summit this year. So, I want to start our training sessions by spending a few minutes setting that campaign in a broader context: the extraordinary economic and political transformation of the United States from roughly the late 1970s to today.

Economic inequality is far greater today than it was in the period from 1945 to the early 1970s. Since then, we have seen the rewards to wealth grow enormously while the rewards to work shrink. This enormous transformation did not just happen. It was created by deliberately chosen economic and tax policies. The consequences have been tight and often reduced investment in public and higher education as well as public infrastructure and failure to adjust the social safety net to meet contemporary needs. This is an overview of how and why this happened and how we can reverse it.

That's a big topic, so I'll only be able to give a high-level overview, leaving out lots of details. These details will be in a long paper we publish in the next month or so. I'm not going to refer to a lot of data here, although you will see that the charts on our data walk provide some of the evidence for the story I'm going to tell. But the advantage of such an overview, I think, is that it will help us understand why tax justice is central to our political aspirations at this moment in the political life of our country and state.

I'm going to do this overview by setting forward seven theses about taxes and economic justice.

Thesis I: The U.S. and Pennsylvania economies have increasingly rewarded *wealth*, not *work*, since the late 1970s.

It's important not to be too nostalgic about the period from World War II to the late 1970s. For most of it, and despite women's suffrage and the civil rights movement, the United States was still dominated by white supremacy and patriarchy as it had been for our entire history, despite some important advances in the sixties and seventies.

But this was also a period in which we saw a dramatic increase in economic equality and in which the American middle class was created—or rather re-created since we had been a mostly middle-class society before industrialization and the age of the robber barons.

This was a time when the rewards for work grew dramatically while the rewards for wealth shrank. This was the time when the wealthy's great mansions in our cities and on the northern shore of Long Island and other such places were turned into museums or libraries because high wages meant the rich couldn't hire servants to run them and high estate taxes meant they couldn't afford to keep them.

This was the age when a working man could support his wife and 2.3 kids in a nice-sized house with all the modern conveniences and a car on just a single salary.

Not everyone lived so well. There were many poor people. And many Black and brown people and single women were deliberately left out of the middle class. But even their wages and options for employment grew over time.

And then in an extraordinarily short period of time, all this progress was reversed.

Since the late 1970s, wages for the top .1% have skyrocketed, growing by 465%. But wages for the bottom 90% grew by only 29%. Yet time spent working has substantially increased for families in the bottom 90%. And the cost of vital goods—especially health care, but also housing—have grown faster than wages.

Meanwhile, the concentration of wealth at the very top has increased even faster than the wages of the ultra-rich.

Is it any wonder that so many Americans feel like they are treading water, barely holding on to middle-class lives or losing their grip on them entirely? And is it any wonder that those with low incomes struggle to hold their lives together?

Thesis II: The tilt in pre-tax growth in income and wealth inequality didn't just happen. It was not the result of the natural changes in the market economy. Rather, it was a deliberate creation of public policy, including governmental acts of commission that directly increased income and wealth inequality and acts of omission that failed to block growing inequality.

Apologists for growing income inequality blame it on **technological change** and **globalization**. But the truth is that while these factors did slightly hold down wage growth for less educated workers, they played almost no role in the startling increase in income and wealth at the top. Those at the very top of major corporations are not better educated than people at many levels below them. But their incomes are dramatically higher.

What did create growing income and wealth inequality?

It was public policies like **deregulation** that led to the financialization of our economy, which instead of supporting needed investment contributed to the hollowing out of our manufacturing base. It was tax policies that encouraged CEOs to **give themselves immense rewards hidden in stock options**. It was policies that **undermined unions**, which had previously held wages down and provided some restraint on inequity in corporate pay.

And it was the failure to enact pro-equality programs such as **increasing the minimum wage or anti-trust and regulatory policies** that could limit the economic impact of growing concentration in industries. It was the failure to embrace **active labor policies** to retrain workers whose jobs had been lost to global competition or policies to **slow factory closures**, which would have given corporations incentives to retrain their workers.

Many European countries adopted these policies—and that’s why they have not seen the same growth in inequality that we have seen here.

Once we understand that the decline of the middle class was not natural but the result of deliberate policy choices, we can insist that those policies be changed.

Thesis III: The tilt from work to wealth, and the ensuing increase in pre-tax income inequality, was exacerbated by the changes in federal and state tax laws.

In the last forty years, the tax structure at both levels of government have become increasingly unfair.

Pennsylvania’s taxes have long been deeply regressive, which means that those with low and moderate incomes pay a higher share of their income in state and local taxes than those with higher incomes. Right now, people in the bottom 99% pay almost 12% of their income in state and local taxes. But people in the top 1% pay only 6% of their income in state and local taxes. And more than 70% of the corporations that operate in Pennsylvania, including almost all multi-national corporations pay nothing.

The federal tax system is slightly progressive up to the very top of the income distribution. But changes in income and corporate taxes have led to a sharp reduction in the share of income paid in federal taxes by the top .1% of taxpayers, including the 400 richest Americans. The share of income paid in taxes by the 400 richest Americans, —who have an average annual income of \$465 million— has fallen from 70.2% in 1950 to 23.3% in 2018, which is lower than the 24.6% paid by those with the median income in the country, \$48,000.

This extraordinary transformation has been accomplished by steep reductions in personal income and corporate tax rates and the creation of new tax loopholes that allow the ultra-rich and corporations to escape from much taxation.

In other words, the growth in pre-tax income and wealth inequality has been exacerbated by tax policies that benefit the richest people in Pennsylvania and the United States.

Thesis IV: A tax system that does not ask the ultra-rich and wealthy corporations to pay their fair share cannot raise enough revenues to provide the public goods that average families need to thrive.

Why must we tax the rich? For the same reason that Willie Sutton robbed banks. Because that is where the money is.

Look at one of the charts in the data walk: you will see that the state share of K-12 education funding has fallen at roughly the same rate as the share of Pennsylvania state taxes paid by corporations. Our K-12 school funding is now so inadequate and unfair that in 2023 the Commonwealth Court ruled that it is unconstitutional. But that is not all. Pennsylvania’s funding for higher education ranks fourth from the bottom out of all fifty states. We are falling behind other states in offering pre-K education to our 3- and 4-year-olds. Our roads and bridges are rated D- for their state of disrepair. And our water and air quality are below average.

Lack of adequate revenues is a problem for the federal government as well. Our social safety net is frayed. Despite President Biden’s improvements to the Affordable Care Act (ACA)—after Trump tried in multiple ways to undermine it—too many families still have trouble affording health insurance. We know from the temporary increase in the child tax credit that it, together with an expansion of the earned income tax credit, could drastically reduce poverty. Yet Republicans continue to block expansions of these programs, claiming we lack the revenue to support them.

The federal government is finally embracing policies that have long reduced inequality in other advanced countries. The Biden administration's policies are adding add billions in federal spending for climate change, new investments in roads and bridges, public transit and for broadband access that, taken together, will spur productivity growth and raise wages. And it is all paid for requiring that the wealthy pay what they owe. But far more needs to be done in all these areas.

Thesis V: New tax policies at the state and federal level could make our tax system fairer and raise the new revenues we need to adopt policies that tilt back toward rewarding work, not wealth.

For years we have called for Pennsylvania to adopt a fair share tax that reduces the income tax rate on work and raises it on wealth. We have called for an earned income tax credit that will reduce taxes on families with low incomes. We have called for corporate tax reform that will finally close the Delaware and Cayman Island loopholes and force multinational corporations to pay what they owe. These and other ideas would raise billions to fund education at all levels, to protect ourselves from climate change, to expand the safety net, and to make health care more affordable.

At the federal level we could raise hundreds of billions of dollars, mostly from the ultra-rich and corporations, by creating a wealth tax on billionaires, a tax on unrealized capital gains, and implementing corporate tax reforms.

These new tax policies would not only make our economy fairer but would provide the resources we need to strengthen the safety net, expand educational opportunity, reinvest in working people, provide protection from climate change and other environmental disasters, and pay for the common goods so necessary to economic growth and both personal and collective well-being.

These new investments, together with the regulatory changes mentioned above that have reduced inequality in other advanced countries, would shift our policy focus back from wealth to work, once again creating broadly shared prosperity for all of us.

Thesis VI: The political decisions that created the shift from work to wealth had a number of intersecting sources.

If we are to understand how to restore the balance between wealth and work, we need to understand the political changes that led to it. There were four of them.

First was the revolt of corporate elites against the expansion of environmental, consumer, and safety regulation in the 1970s. This led to a huge increase in business fundraising, lobbying, policy research, and political activity that opposed progressive legislative efforts and by embracing and funding the extreme libertarian economic right—which had been sidelined by moderate Republicans since Eisenhower—enabled it to capture the Republican Party.

Second, Republican politicians embraced and stimulated the backlash against the civil rights, feminist, and LGBTQ+ movements, which then undermined white working and middle-class people's support for Democrats. This effort began soon after major civil rights laws were passed in 1964 and 1965 and has been exacerbated since. The result is that Democrats have held the U.S. House, U.S. Senate, and the presidency for only four years since 1988. While social democratic parties in Germany and Sweden embraced policies that limited the shift from work to wealth, Democrats rarely had the power to adopt such policies in the United States.

This second factor led to a third one: Democrats increasingly needed upper-middle-class voters, to replace the working-class voters they lost. And Democratic office holders feared, and still fear, that their upper-middle-class voters would reject progressive economic policies. And in some cases,

Democratic office holders relied too heavily on wealthy corporate donors who oppose particular progressive initiatives.

Finally, the fourth factor is that so many of our government's features, such as the Senate filibuster, the unrepresentative Senate, and gerrymandered U.S. House and state legislative districts make it difficult for impossible for a majority to enact the policies they favor in Washington or Harrisburg. Our political system requires concurrent majorities to enact legislation: a majority in committees and on the floor of each legislative house (including a super-majority in the Senate) and then agreement by the president. This daunting process makes change difficult and empowers minorities, and especially minorities that are influential in the districts of a few powerful legislators, to block legislation that the majority prefers. The power of both locally and regionally based special interests work coupled with the influence of campaign contributions is the reason that a small number of Democratic legislators have blocked important reforms, as Senators Joe Lieberman and Ben Nelson did with the public option and Senator Schumer is doing with efforts to close the carried interest loophole which allows hedge fund traders to avoid billions in taxes.

These are not easy barriers to overcome. But they can be overcome for one simple reason. The public policies we favor will benefit everyone (except the billionaires). The policies we support would help people who are Black, brown, and white. They would help people who are from every corner of Pennsylvania and every part of this country. And contrary to the fears of Democratic politicians, they unite people who are poor, and working people with people who are middle-class and upper-middle-class. All of us are being hurt by public policies that benefit the billionaires and the wealthy corporations. We may not have known that in the past. But more and more of us do now.

Thesis VII: We need a broad people's movement—of the kind that has changed the United States repeatedly in the past—with a smart strategy to make our common interests clear and overcome the political barriers we face.

Creating that movement is an immense organizational task that requires creative and hardworking organizers. But there are people who are ready and willing to do that work, including many of us in this room. It will require substantial funds but there are major funders in the United States who are ready to embrace our work

We also need a smart message. To create one we must recognize that today economic issues are deeply intertwined with cultural issues. There are many people in the United States who might benefit from the tax-related and other economic policies we support. But they have come to believe that a cultural elite seeks to undermine their religious faith, their moral ideas about sexuality, ideas about the appropriate roles for men and women, and about how the races should relate to one another. While those beliefs are powered by racism and sexism, they carry over to the economic sphere. The Right uses opposition to what they believe is a cultural elite by telling other people what to do and how to think as a means of generating opposition to a government that taxes the rich and corporations, creates a strong safety net, and regulates the economy to benefit working people.

We cannot compromise where racism, sexism, and opposition to the LGBTQ community are concerned. But we can find a way to diminish the right-wing appeal to the atavistic impulses held by too many Americans.

How?

Most importantly, by recognizing that all politics is identity politics—that is, political appeals are most effective when they connect us to others based on shared ideals, a shared view of what we stand for as a country.

That is, it's not sufficient to simply trot out a seven- or nine-part economic plan to benefit working people. While such a plan might appeal to those who pay attention to liberal policy wonks—they are the currency of our political identity—they don't appeal to most people with little time to explore policy ideas or interest in doing so.

Instead, we must embed our ideas about taxes and the path to a prosperous economy in an account of a good community that serves us all.

We must explain that we value and seek to reward everyone's hard work, not just because that is how we help ourselves and our families but also because it is how we contribute to our community. That is why our economy should reward work more than wealth.

We must hold that the first goal of the wealth we create through our work is to provide the opportunities we need to develop our talents and abilities so that we can work productively for our families and community and the common goods and investments that are critical to our future, from roads bridges, and transit to research and technological development to protection from climate change and other environmental ills.

And the second goal of our collective wealth is to provide a safety net that protects us all from the uncertainties and difficulties of life—including illness, injury, and aging.

We must bring attention to the other side's embrace of an economic agenda the rewards the ultra-rich and wealthy corporations. And we must explain that the political tilt towards wealth was accomplished by dividing us on the basis of what we look like, where we are from, and who we love.

We must insist that we can only attain economic goals by rejecting these efforts to divide us, not just because this undermines our political unity but because division directly undermines our prosperity. An inclusive community is not only the right path to follow but one that enables us to enjoy and benefit from the incredible diversity of talents, abilities, inclinations, and cultures in the gorgeous mosaic that is America.

In other words, we must show that a more equal society, made possible by tax-related and other policies that tilt our economy back towards works instead of wealth would not just create prosperity for all but would also create a community we can treasure, a community that creates unity from our diversity and that gives us pride in our common life.

And we must take this same message everywhere—to Black, brown, and white working-class communities in our cities and to upper-middle-class communities in our suburbs, and even to the edges of Trump's base in rural areas. In recent years, we on the Left have rightfully recognized our failure to listen to people in marginalized communities and to provide But we must also recognize that a progressive movement for economic change cannot win electoral power without convincing the upper middle-class people to whom Democratic politicians pay so much attention that their interests are far more aligned with people at the bottom and middle than those at the very top.

The time is ripe to build a cross-class, multiracial coalition movement to create shared prosperity and opportunity for all. Not just low-income but middle-income Americans have become increasingly aware of how distant the lives of the ultra-rich are from their own. Not just low-income but middle-income Americans recognize that their kids will only do well with a superior education from pre-K through high school and beyond. And the burdens of high prices for critical goods—child care, health care, housing, and post-secondary education—are felt by all of us from the upper-middle-class on down. And all of this is even more widely known by the Millennials and Generation Z, whose political

identity is not yet fully formed but who, from all appearances, are deeply skeptical of capitalism and hunger for a positive vision of our common life.

In this difficult time in our country when there is so much division, it is perhaps hard to believe that we can overcome the barriers we face by appealing to a positive vision of a good community. I know it is not going to be easy. I know it is going to take time. But I'm confident that if we stay strong, if we hold hands, if we march together, in the end we will not fail.