

The Return of Class War

Bush and the new tyranny of the rich.

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The fall of communism 14 years ago was not the end of history, despite Francis Fukuyama's famous prediction. It was, though, pretty much the end of the argument, in most of the world, about the best way to organize society. The answer (despite quibbles over the details and a surprisingly resilient minority preference for theocracy) is democratic capitalism.

But this intellectual victory for the dynamic duo didn't resolve the tension between them. Democracy presumes and enshrines equality. Capitalism not only presumes but requires and produces inequality. How can you have a society based on equality and inequality at the same time? The classic answer is that democracy and capitalism should reign in their own separate "spheres" (philosopher Michael Walzer's term). As citizens, we are all equal. As players in the economy, we enjoy differing rewards depending on our efforts, talents, or luck.

But how do you prevent power in one from leeching into the other? In various ways, we try to police the border. Capitalism is protected from democracy, to some extent, by provisions of the Constitution that guard individuals against tyranny of the majority—for example, by forbidding the government to take your property without due process of law. Protecting democracy from capitalism is the noble intention, at least, of campaign finance laws that get enacted every couple of decades.

Separation of the spheres also depends on an unspoken deal, a nonaggression pact, between democracy's political majority and capitalism's affluent minority. The majority acknowledge that capitalism benefits all of us, even if some benefit a lot more than others. The majority also take comfort in the belief that everyone has at least a shot at scoring big. The affluent minority, meanwhile, acknowledge that their good fortune is at least in part the luck of the draw. They recognize that domestic tranquility, protection from foreign enemies, and other government functions are worth more to people with more at stake. And they retain a tiny yet prudent fear of what beast might be awakened if the fortunate folks get too greedy about protecting and enlarging their good fortune.

That was the deal. Under George W. Bush, though, the deal is breaking down. With Republicans in control of the White House and both Houses of Congress, the winners of the economic sphere are ratting on their side of the bargain and colonizing the sphere next door. Campaign contributions are only the crudest way power is transferred from the economic sphere to the political one. In addition, there are well-financed lobbying organizations, including some masquerading as research institutes. There is the inherent complexity and boredom of tax and regulatory issues, which repel people who don't have a major financial stake. There is the social milieu of the president and most members of Congress. They may not all come from the worlds of posh aristocracy or self-satisfied business success (Bush remarkably straddles both), but these are the worlds they are plunged into as they rise to congressional leadership. And, in the back of their minds, these are the worlds they may hope to find a place in when they lay down the weary burdens of power.

The recently enacted tax bill is such a shocking and brazen gift for the wealthy that it is hard to describe in anything short of these cartoon-Marxist terms. After two Bush tax cuts, consider how we now burden people at the bottom and at the top of the economic ladder.

A minimum-wage worker today must pay the FICA payroll tax of 15 percent (if you include the employer's share, as economists agree you should) on the very first dollar she earns. If she has children, she may qualify for an earned income tax credit, but she may not. If she works hard and moves up the income scale, she'll soon be paying another 15 percent in income tax. You might call this "double taxation," but President Bush doesn't.

Our minimum-wage worker most likely falls into one of the unadvertised holes in the Bush something-for-everyone tax cut. There is nothing in it for her. This gap around the minimum wage was supposedly inadvertent, and Republicans on Capitol Hill were eager to correct it. But Republican congressional straw boss Tom DeLay said incredibly that he would only allow the alleged correction as part of yet another big tax cut with more goodies for the serious income brackets.

Now look at the fellow who has a few millions or billions. He probably has paid no income tax on most of that pile, since investment profits are taxed only when they are "realized"—i.e., cashed in. Any investment profits that he hasn't cashed in when he cashes in himself escape the income tax forever. If he can hold on for a few years, under current plans, the estate tax will die before he does. His investment income also is exempt from the 15 percent FICA tax that hits the minimum-wage worker at dollar 1.

And now the tax rate on both dividends and capital gains is capped at 15 percent. This is supposed to alleviate the unfairness of having both a corporate income tax and a tax on the profits individuals earn on their investments in corporations. This is the one Bush does call "double taxation," and he rails against its injustice. In 2002 the total burden of the corporate income tax was barely one-fifth of the burden of payroll taxes, but it apparently strikes a more sensitive group of people.

So, under the American tax system as designed by the Bush administration and congressional Republicans, the most a person of vast wealth is expected to contribute to the commonweal from his or her last dollar of investment profits is the same 15 cents or so that a minimum-wage worker is expected to pay on his or her first dollar. This does not mean that we have a flat tax. We have a tax system of vast complexity, with wildly different tax burdens on different people. But we have a tax system that, on balance, knows who's in charge.