

## GUEST EDITORIAL

# Tax kicker grab plan a failure by itself

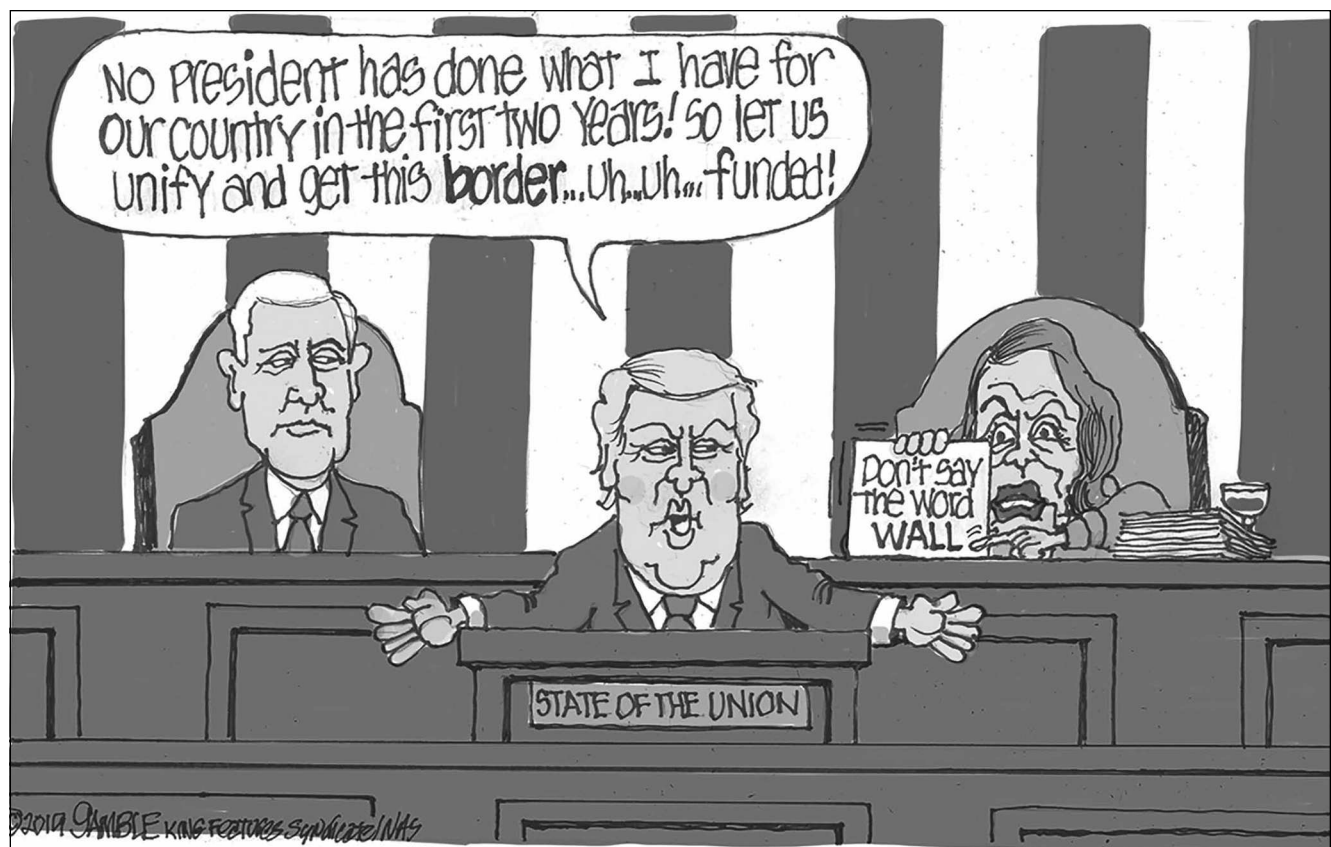
Editorial from The (Bend) Bulletin:

While Republicans in the Oregon Legislature may seem to be the only members of that body seriously interested in filling the state's huge and growing unfunded liability in the Oregon Public Employees Retirement System, Democrats have come up with at least one idea. By itself, it's a doozy.

The kicker is required only when revenues exceed the biennial estimate by 2 percent or more. House Bill 2170 would divert some \$724 million in tax revenues, now expected to be returned to taxpayers, to the Employer Incentive Fund. The fund was set up to encourage public employers to pay down their PERS liabilities by adding state dollars to the pot.

By itself, it's a lousy idea. Democratic lawmakers, through their own refusal to address significant PERS reform in recent years, have done little to improve the PERS picture. Republicans, led by Sen. Tim Knopp, R-Bend, have at least been willing to try, but they're in the minority and so far haven't been successful.

Some Oregonians might tolerate a kicker grab if it wasn't the only serious PERS reform to become law. It's a bad idea by itself. It should be one of the last things the Legislature would consider. Democrats should recognize that and make serious, long-term reform part of any PERS plan.



# The middle class isn't shrinking

It has become an accepted notion in many circles: The middle class is shrinking, while the rich are reaping the bulk of the spoils in a growing economy.

As proof, proponents of this view point to government data showing that the median household income (adjusted for inflation) fell from \$60,002 in 2000 to only \$58,476 in 2015.

But in fact, the whole notion of a shrinking middle class is a myth. Here's why.

When you compare household incomes over time, you have to look at identical households. The census defines a household as one or more persons living in the same abode. Fifty years ago, only 15 percent of all U.S. households had a single occupant. By 2017 that percentage had nearly doubled, to 28 percent. In just the last 10 years, the percentage has increased by three points. So, the typical household today is much smaller.

Does that matter? Absolutely. In 2017 the median income of a married couple household was \$90,386 while the income of a one-person household was a mere \$36,000. So you would expect that, as the percentage of single-person households has grown, the average household income would inevitably decline.

Are these single-person households worse off? The millennials who have left their parents' homes and moved into apartments of their own certainly don't think so. Nor do retired people who have moved out of their children's homes and are now living independently. In earlier generations the young and the old couldn't afford such residential independence, and their ability to do so now is a symptom of financial well-being, not deprivation.

Another factor in the growth of single-person households is that as the economy has improved, rising family incomes have created an opportunity for

## BRAD SCHILLER

unhappy couples to establish separate residences. In such cases, even if their combined incomes don't change, their household incomes decline. For them, divorce was a luxury that they couldn't have afforded in earlier decades.

There is another flaw in the "shrinking" thesis that merits attention. It suggests that people in the lower income groups remain there because those darn high earners are profiting from all the growth. But that's not how things work.

Every year the population grows by 2 million to 3 million people. And individuals age, move through the education system, form new households, bear children, and gain work experience. As the life circumstances of household members evolve, households move across the distribution of income, so it isn't as if people at the low end of the earning scale are stuck there while the rich get richer.

Take the case of an immigrant (legal or otherwise) who takes a first job at the minimum wage. What impact does his job have on the measured median? His low income lowers the median U.S. household income. But that doesn't mean that others are worse off because he is earning less.

Or what about the college grad who takes a first job at \$30,000 and moves into a rented apartment? Her income is way below the median (\$61,372), so will bring that measure down. Is anyone worse off?

Or consider the auto executive who retires from his \$150,000 job, moves to Florida and lives on his \$80,000 pension. Here again, the median income falls, but no one suffers as a result.

Finally, look at these scenarios 10 years later. The immigrant has gained work experience, occupational contacts, improved language skills and maybe

even some community college education. Ten years later he is making \$38,000 a year, a long way from his minimum-wage beginnings. Other immigrants or youth have replaced him at the bottom of the wage ladder. We still have minimum-wage workers who depress the median, but they aren't the same workers of 10 years earlier.

That upward mobility is the essence of the American Dream, but it disguises income improvements for individuals that occur even when average incomes are stagnant.

The same is true for the college grad. She starts out with an income that is half of the national median. But she doesn't stay there. She moves up the ladder with work experience. In the process, she moves from the low-income class to the middle class. Even if her income doesn't rise above the national median, she is unquestionably better off.

If everyone is moving up the income ladder, why doesn't the median income go up? Because millions of new workers enter the labor market every year. Immigrants, the high school dropouts, college grads, newly working moms and others are entering the market every day. Most of these entrants start out at or near the bottom of the income ladder, putting a lid on measured growth of median incomes.

In effect, you have two conflicting statistical forces: the upward pressure on average incomes coming from people moving up the income ladder and the downward pressure of new workers filling the bottom rungs of the income ladder. With a growing population and a dynamic economy, the people inhabiting the middle class changes every year. Even if the median household income never changed, people would still be improving their circumstances.

*Brad Schiller is an emeritus professor of economics at American University and author of "Essentials of Economics."*

## Letters to the editor

- We welcome letters on any issue of public interest. Customer complaints about specific businesses will not be printed.
- The Baker City Herald will not knowingly print false or misleading claims. However, we cannot verify the accuracy of all statements in letters to the editor.
- Letters are limited to 350 words; longer letters will be edited for length. Writers are limited to one letter every 15 days.
- The writer must sign the letter and include an address and phone number (for verification only). Letters that do not include this information cannot be published.
- Letters will be edited for brevity, grammar, taste and legal reasons.

**Mail:** To the Editor, Baker City Herald, P.O. Box 807, Baker City, OR 97814  
**Email:** news@bakercityherald.com  
**Fax:** 541-523-6426

# Get over the reluctance to boost taxes on the rich

The left is beginning to make noise about asking the rich to contribute more revenue to the well-being of our republic.

Rep. Alexandria Ocasio-Cortez has suggested, for example, that our wealthiest citizens be taxed at a rate as high as 70 percent on income above \$10 million. Sen. Elizabeth Warren has proposed a tax not only on income, but on wealth. Warren's plan would impose a 2-percent annual tax on all assets worth \$50 million or more and 1 percent on assets over \$1 billion.

Predictably, the wealthy quickly objected, and not just Republicans. Potential Democratic presidential candidate Michael Bloomberg called Warren's plan "probably unconstitutional," adding that "we shouldn't be embarrassed by our system."

Possible independent candidate Howard Schultz (another billionaire) told NPR that Warren's idea is "ridiculous."

But it's not just the wealthy who are shocked by the idea of taking more money away from people just because they happen to have a lot. Many ordinary Americans are reluctant to impose higher taxes on the rich. But it's a reluctance that we should get over. For one thing, it makes economic

## JOHN M. CRISP

sense. For economics, I turn to economists. Recently, New York Times columnist Paul Krugman, himself a Nobel Prize-winning economist, noted the work of Peter Diamond, another Nobel laureate in economics, who contends that the optimal tax rate on the rich, the rate that raises the most revenue, is 73 percent. Other distinguished economists argue that the best rate is closer to 80 percent.

In other words, if we put aside the feelings of the rich — that is, their sense of their right to all that money — the marginal tax rate that provides the most revenue for our society is more than double the current highest rate, 37 percent. And Krugman notes the demonstrable correlation in the past between periods of high tax rates for the rich and strong economic growth.

In short, the "radical" proposals from Ocasio-Cortez and Warren are consistent with respectable economic theory and research. But how do we get over our psychological reluctance to take money away from rich people? Here's one way to think about it:

When the Pilgrims first beheld our country's favored shores, they saw almost unbounded natural resources: fertile land, timber, water and, later, coal, oil and natural gas. Much of our nation's current wealth depends on the rich bounty that greeted the newcomers.

It's a fine aspirational American ideal to hope that all citizens have some claim to the benefits of these resources, but that's not exactly what happened. First, access to the nation's riches required the displacement of people who had already lived here for millennia.

And from the beginning the two biggest sources of labor — women and blacks, who did most of the hard work — were uncompensated. For the most part, white men reaped the benefits of the American enterprise.

Things have changed, of course. But they haven't really changed all that much, have they? Wealth is still concentrated to an inordinate degree in the hands of white men, and so is wealth's symbiotic counterpart, political power.

In fact, in recent decades, wealth and power have worked together successfully to

increase the gap between those who have the most money and those who have the least. And the middle class hasn't been doing very well, either.

Of course, the wealthy would prefer that we believe that their riches are the result of hard work and innate merit. Sometimes they are.

But a great deal of wealth is entrenched, self-perpetuating and protected by the political power that money can buy.

Why should the wealthy pay more? Because they benefit the most from our common national enterprise, especially our shared national resources and the labor and the willingness of the less-wealthy to defend the American system. Without these, their wealth would be impossible.

The wealthy may not have as much as they want, but they have much more than they need. It shouldn't embarrass us to expect them to pay more. A more equitable distribution of wealth would be good for everyone, probably even the wealthy.

*John M. Crisp, an op-ed columnist for Tribune News Service, lives in Georgetown, Texas, and can be reached at jcrispcolumnns@gmail.com.*