

[for the Political Committee]

6 1975

This is a just-completed series of major articles from Business Week on the theme of the incompatibility of political democracy and capitalism. It notes many of the same points in the political resolution, from the opposing class standpoint. Perhaps an answer and commentary by the Militant would be in order.

Andy Rose

EGALITARIANISM: THREAT TO A FREE MARKET

"Equality," said Voltaire, "is at once the most natural and most chimerical thing in the world: natural when it is limited to rights, unnatural when it attempts to level goods and powers."

The greatest single force changing and expanding the role of the federal government in the U. S. today is the push for equality. And while the orators of this movement still speak primarily in terms of rights, the goal increasingly is to level goods and powers in the American society. Today's egalitarians want to use the federal government to redistribute wealth and incomes, to equalize differences in education and family backgrounds, and to override the classic principle that what a man consumes must be determined by what he produces or what he owns. To achieve uniformity and equality, they are prepared to sacrifice diversity and individual liberty. The egalitarian movement is essentially authoritarian. It is highly critical of business and contemptuous of *laissez-faire* economics.

Business for its part sees the egalitarian push as a threat—not just to its pay scales but to the fundamental principles of a market economy. It is right. The American economy, based on private property, uses the market to determine rewards and allocate resources. Differences in pay and profit are essential to it. At some point, therefore, a move toward equality would require a shift from capitalism to a socialist or government-directed state. By all indications, the U. S. is still a long way from this point. But the inherent contradiction between a political democracy and a capitalist economy has yet to be resolved.

The U. S. has been committed since the days of Franklin Roosevelt's New Deal to a broad welfare program providing help for the poor, the aged, and the unemployed. But until now it has accepted the fact that different people will earn widely different incomes in a market economy. Programs such as aid to dependent children, which make money transfers simply on the basis of need, have been justified on humanitarian grounds. The Social Security system, the biggest of all the government social programs, was designed as

a nationwide insurance fund, with all participants paying something and with benefits related to contributions.

The difference now is that the new egalitarians do not ask government transfers as a matter of charity or as part of a businesslike program. They want the government to use its powers to restructure the economic system and equalize its rewards, giving to the poor as a matter of right.

The strongest support for income redistribution has come from the blacks and other minorities—and lately from the women's movement. The claims of these groups have made a considerable impression not only on Congress but also on the upper-income groups that might have good economic reason to resist them. The demand for equal job opportunities and equal pay for equal work has paved the way for the assertion of a right to equal housing, education, and enjoyment of life. The obvious bite of poverty at the bottom of American society has built sympathy for the underdog.

The strength of egalitarianism, therefore, is out of proportion to the number of people who formally subscribe to it. Many egalitarians do not like the label. And many supporters of egalitarian measures will not endorse its philosophy. They see government intervention as the answer to a particular problem—poverty, old age, bad health—and they think of equality as only an incidental consequence of solving the problem. There is as yet no egalitarian party in the U. S., and there probably never will be. But the push toward equality gains powerful support from shifting alliances of pressure groups that cross party lines and make strange political bedfellows.

Action programs. The most obvious examples of egalitarian actions today are busing to integrate school districts and affirmative action programs designed to force employers to hire more women and more members of minorities. But the fight in the future will center on government taxing and government spending.

In one way or another, all the government's social programs are equalizers. Social Security transfers income from active workers to retired workers. Medicaid transfers from the well to the sick. Aid to education can equalize the spending power of poor school districts and rich districts—though the present program does not always achieve this result. Federal loans and scholarships open higher education to students who cannot pay tuition.

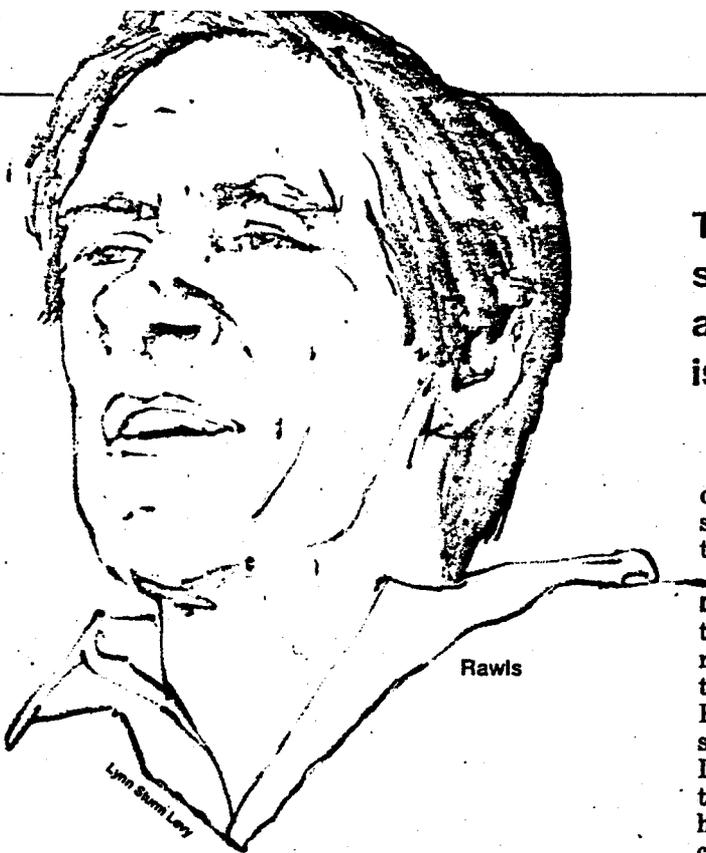
The enormous expansion of the federal budget in the past decade reflects a rapid growth in these programs. Outlays for "health and income security" totaled \$27.5 billion in fiscal 1965, just before President Johnson's "war on poverty" got under way. In fiscal 1975, they added up to \$136 billion—about 42% of total federal spending. The projection for fiscal 1976 is \$151.8 billion. In addition, federal outlays for education are in the 1976 budget for \$16 billion. Federal manpower programs get \$6 billion. And "civil rights activities" are budgeted for \$394 million.

And that is only the beginning. In a study for the American Enterprise Institute for Public Policy Research, Edgar K. Browning points out that "today



Voltaire

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The push to level incomes and lifestyles shifts decisions from the marketplace to a fast-growing government apparatus that is changing the economic structure

of our responses to these needs—some very real, some only perceived—is quite literally threatening to bring us to national insolvency.”

Deep roots. The idea of equality is no alien latecomer to American thought. The founding fathers had read John Locke and Jean Jacques Rousseau. And though they were wary of radicals like Thomas Paine, they could see for themselves how his rhetoric stirred the ordinary colonist. The framers of the Declaration of Independence drew on this body of thought when they wrote the famous passage: “We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty, and pursuit of Happiness—That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed.”

Rousseau would not have written it quite that way. Nor would he have accepted a Constitution that was scrupulously respectful of property rights and that provided elaborate checks and balances to restrain the power of the government it created. Rousseau conceded the citizen no rights that did not coincide with what he called the “general will.”

Since the Middle Ages, the general will—or at least, the will of the majority—has been asserting itself against the rights of property. Alexis de Tocqueville, that astute analyst of the democratic process, foresaw the outcome. The leveling process, he predicted, would not stop with abolishing hereditary rank and class distinctions. It would build momentum and move on. “Would it, then, be wise,” he asked, “to imagine that a social impulse which dates from so far back can be checked by the efforts of a generation? Is it credible that the democracy which has annihilated the feudal system and vanquished kings will respect the citizen and the capitalist?”

What de Tocqueville foresaw was a basic change in the emphasis of the egalitarian movement—from equality before the law to equality in economic well-being. And this is what is occurring now. The egalitarian movement began as a fight for legal rights—the right to vote, the right to equal job opportunities, the right to equal pay for equal work—what the scholars call *égalité de droit*. This fight is by no means ended, as the drive for equal treatment of blacks and women in the job market demonstrates. But the goals of the egalitarians are now expressed in results rather than rights. They seek *égalité de fait*—equality of incomes

there are more than 100 federal government programs conferring benefits to the poor.” Many of them—such as subsidized housing and food stamps—provide benefits in kind rather than cash. Browning estimates that about 40% of the gross transfers to the bottom fourth of U. S. families took this form.

Welfare spending will increase and move into new areas in the decade ahead. Congressional leaders already consider national health insurance a sure bet for enactment in the next year or two. Social Security benefits will be liberalized. A group of Democratic congressmen led by Senator Hubert Humphrey (D-Minn.) and Representative Augustus Hawkins (D-Calif.) will push a “full employment and economic opportunity” bill guaranteeing federal jobs for everyone who cannot find a place in private employment.

As the costs increase, the egalitarians will try to shift more of the burden to upper-bracket incomes. Liberals already are complaining that the payroll taxes that finance Social Security put a “regressive” load on the lowest incomes. They want to extend the tax to all incomes instead of stopping it at the \$15,300 level, which it is scheduled to reach on Jan. 1, 1976. Alternatively, they would finance Social Security out of general revenue, which means that the progressive income tax would pick up more of the load.

When Caspar W. Weinberger resigned as Secretary of Health, Education & Welfare last July, he told the Commonwealth Club of San Francisco: “Federal spending has shifted away from traditional federal functions such as defense and toward programs that reduce the remaining freedom of individuals and lessen the power of other levels of government. This shift in federal spending has transformed the task of aiding life’s victims from a private concern to a public obligation. There are benefits and burdens in this. . . .”

The greatest burden, as Weinberger sees it, is that “we have built an edifice of law and regulation that is clumsy, inefficient, and inequitable. Worst of all, the unplanned, uncoordinated, spasmodic nature



de Tocqueville

Is there any valid reason for insisting that the fast and the slow, the successful and the unsuccessful, should all arrive at the same condition at the same time?

and wealth, and beyond that equality of education, job satisfaction, and standing in the community. As Robert A. Nisbet, Albert Schweitzer Professor of Humanities at Columbia, observes in an article in *Commentary*: "It is result, not opportunity, that is today the central perspective in egalitarianism."

For most of the egalitarians, equality requires a major expansion in the government's role in the U. S. economy and a corresponding structural change in the federal and state apparatus. "The greatest single revolution of the last century in the political sphere," says Nisbet, "has been the transfer of effective power over human lives from the constitutionally visible offices of government, the nominally sovereign offices, to the vast network that has been brought into being in the name of protection of the people from their exploiters."

Intellectual dilemma. Like all movements, egalitarianism has its literature and its gurus. The most admired of the academic writers just now is Harvard philosopher John Rawls, whose *Theory of Justice* has refurbished Rousseau's general will and adapted it to 20th-Century sociology. The primary aim of society, argues Rawls, is justice or fairness, and fairness means equality—not just equality of rights but equality of condition. Instead of accepting the unequal distribution of rewards determined by the market economy, society should follow a "principle of redress." Equality of opportunity is a delusion unless it produces equality of results. Hence, "to produce genuine equality of opportunity,

society must give more attention to those with fewer native assets and to those born into less favorable social positions."

"However," warns Christopher Jencks, also of Harvard, "it is equally wrong to argue that genetic inequality does not exist or that those who admit to its existence must be racists."

This is the great intellectual dilemma of the egalitarians. A look at the real world demonstrates that some men are smarter than others. Some men are more alert to the demands of the economic system and quicker to respond to them. Is there any valid reason for insisting that the fast and the slow, the successful and the unsuccessful should all arrive at the same condition at the same time?

Jencks's answer is that equalizing competence should be a high-priority goal of government policy. "The best way to equalize competence is to . . . encourage employers to reorganize work with this objective in mind."

Meantime, says Jencks, the egalitarians must "convince people that distribution of income is a legitimate political issue. . . . We need to establish the idea that the federal government is responsible not only for the total amount of national income, but for its distribution. If private decisions make the distribution too unequal, the government must be held responsible for improving the situation."

"A successful campaign for reducing economic inequality" he concludes, "probably requires two things. First, those with low incomes must cease to accept their condition as inevitable and just. Instead of assuming, like unsuccessful gamblers, that their numbers will eventually come up or that their children's numbers will, they must demand changes in the rules of the game. Second, some of those with high incomes, and especially the children of those with high incomes, must begin to feel ashamed of economic inequality."

Plenty of academic critics have arisen to do battle with Jencks, Rawls, and their allies. One of the sharpest is Robert Nisbet, who declares that "programs aiming at equality of result or condition are inevitably aligned, *have to be* aligned with large and cumbersome structures of political power."

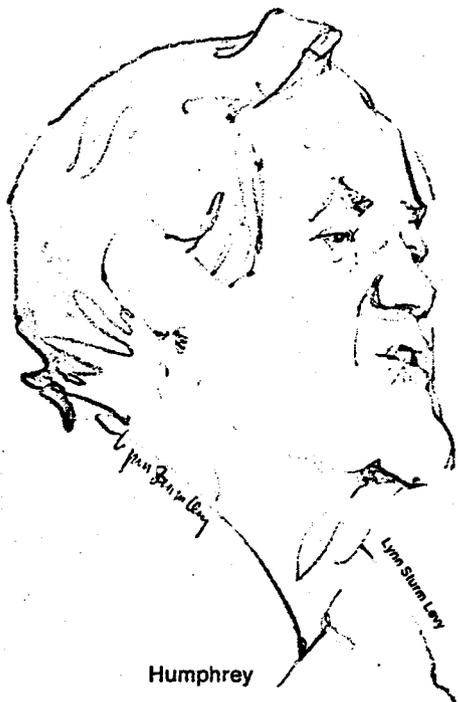
"Equality," he adds shrewdly, "feeds on itself as no other single social value does. It is not long before it becomes more than a value. It takes on all the overtones of redemptiveness and becomes a religious rather than a secular idea."

Others are busy digging out quotations from the Austrian school of economics. Ludwig von Mises and Friedrich Hayek, who wrote the *Road to Serfdom*, saw even the modest welfare programs of the last generation as an intrusion on liberty and a start toward collectivism. The new egalitarianism is certainly consistent with their predictions.

The coolest and most objective appraisal of the egalitarians yet to appear is *Equality and Efficiency, The Big Tradeoff*, by Arthur M. Okun, senior fellow of the Brookings Institution and chairman of the Council of Economic Advisers under President Johnson. Okun likes the idea of equality: "Abstracting from the costs and the consequences, I would prefer more equality of income to less and would like complete equality of income best of all." But he points out that equality of condition involves costs that equality of rights does not. "In pursuing such a goal, society would forego any opportunity to use material rewards as incentives to production. And that would lead to inefficiencies that would be harmful to the welfare of the majority. Any insistence on carving the pie into equal slices would shrink the size of the pie. That fact poses the trade-off between economic equality and economic efficiency. Insofar as inequality does serve to promote efficiency . . . I can accept some measure of it as a practicality."

Momentum. Most of the liberals in U. S. politics today would join Okun somewhere in the middle of the road and accept a substantial measure of inequality as the price of maintaining an efficient market system. But as the liberals see it, the equalizing trend that began under Franklin Roosevelt and acquired new life from Lyndon Johnson's Great Society is still nowhere near the stopping point. The very fact that the U. S. has made a start toward equality has created a demand for faster progress.

Senator Humphrey keeps a quote of his own from



Humphrey

de Tocqueville filed for ready reference in a ring binder on his office shelf: "The sufferings that are endured patiently as being inevitable become intolerable the moment that it appears that there might be an escape. Reform then only serves to reveal more clearly what still remains oppressive and now all the more unbearable; the suffering, it is true, has been reduced, but one's sensitivity has become more acute."

Humphrey is pushing for tax reform, more government spending, and more government planning. The tax burden on the poor and the middle incomes has increased, he says, because the share of total government revenues raised by sales taxes, property taxes, excises, and Social Security payroll taxes has increased. The elderly have suffered most from inflation, and the blacks are still far behind the rest of society in incomes and education.

The U.S., Humphrey argues, has gone too far down the road toward a just society to turn back now. It must do more to pull up the bottom, though that need not mean pulling down the top.

Leon Keyserling, chairman of President Truman's Council of Economic Advisers and since then a vigorous liberal spokesman, sees equality as part of the problem of economic growth. "I am not in favor of perfect equality," he says. "I believe in rewards and capital accumulation." But he blames "unsound" income distribution for the boom-bust record of the past decade. "It does not keep the American economy operating at full use of its resources," he says, "and it does not provide maximum human benefits."

Keyserling is not bothered by the trade-off between equality and efficiency. As he sees it, "The social and the economic optimum is the same. The best economic solution will be the best social solution."

Keyserling favors reform of what he considers a regressive tax system, a universal federal income-support program, more public spending, and easier money. He is enthusiastic about the proposal to enact a "full employment and opportunity" bill, setting the unemployment target for the U.S. at 3% and providing for a "national purposes" budget to identify consumption and investment levels consistent with that goal. "The main function of national policy," he remarks tartly, "is not to forecast but to set goals and reach them."

A small but vociferous group of politicians regard Humphrey and Keyserling as pussyfooters. American society, they say, needs restructuring, and the people know it. A deep vein of discontent is waiting to be mined by any political leader with the courage to stand up for equality.

Former Senator Fred Harris (D-Okla.) obviously is prospecting for this vein as he tries to launch a Presidential bid based on attacks on business, the rich, and the establishment. Much of what he is saying strangely echoes the oratory of George Wallace, whose antiestablishment campaign has given a new twist to the populist tradition in America. Both owe a good deal to Huey Long, who discovered a generation ago that an unbeatable political machine could be built on the slogan, "Every man a king."

At this point, however, the real push in the egalitarian movement is not coming from the politicians. It is coming from organizations with clearly defined demands—from blacks, from women, from welfare workers who are now so numerous they constitute a power bloc of their own. It is also coming from the

leaders of the new unions of government employees, who are not only determined to increase their own incomes and job security but also want to enlarge the role of government in the U. S.

The older American labor unions are less likely to think in terms of equality. In the past decade, the unions' insistent demands for pay increases without matching increases in productivity have amounted to a bid to enlarge labor's share of national product at the expense of the shareholder and the rentier. But as Labor Secretary John T. Dunlop observes, the unions are always in favor of higher minimum wages, but they want to maintain pay differentials, too. Unions, such as the United Steelworkers, traditionally have split each negotiated wage increase into two parts, with some going to across-the-board increases and the rest enlarging the increments between jobs.

The new unions of government employees are different. Egalitarian measures are a source of jobs for them, because more intervention calls for a bigger government apparatus. Moreover, the nature of their work—especially welfare and teaching—makes them sympathetic to the goals of the egalitarians.

When Albert Shanker, head of the New York teachers' union, suggested that schooling should start at the age of three, he was trying to create more jobs to avoid the layoffs that threatened in his financially desperate school system. But he was also proposing one of the favorite prescriptions of the academic egalitarians, who see education as the great equalizer.

The true believers in equalizing are eagerly watching Britain, where the Labor government is putting some of their theories into action. On Jan. 1, 1976, the British government will end its subsidies to the so-called "direct grant" schools that admit only the more promising students. These schools will have to make a choice between becoming totally independent, paying their own way with fees, or entirely government financed, with no restrictive admissions requirements.

The private education issue is less important in the U.S., where the tradition of free public schools is strong. But the American egalitarians and the British have the same objectives.

Paradoxically, the more the U.S. grows, the stronger the push for equality becomes. Economist Lester Thurow sums up the argument: "Maximizing economic output may be so important in a poor country that society is willing to tolerate inequalities among individuals if this is necessary to produce rapid growth. . . . As output increases, however, the value attached to increases in output for future generations probably decreases. . . . Thus, the relative importance of achieving a more equal distribution of output rises. . . . From this vantage point, equality is a superior good. The richer we become, the more of it we can afford."

This is the first of three articles on egalitarianism. The second covering income distribution, will appear next week.



Rousseau

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EGALITARILANISM: MECHANISMS FOR REDISTRIBUTING INCOME

Every year, in July, the Bureau of the Census issues a modest pamphlet titled "Money Income and Poverty Status of Families and Persons in the United States." At once, the desk calculators light up all over the country—in universities and scholarly institutes, in government offices, and in the headquarters of groups such as the National Assn. for the Advancement of Colored People and the National Organization for Women. Distribution of income is the central issue in the insistent push for greater social and economic equality in the U. S. The annual report of the Census Bureau serves as a score card for the egalitarians.

This year's report, covering the calendar year 1974, shows little significant change. The U. S. economy still rewards success with incomes far greater than the average, and it still penalizes the unsuccessful with incomes below the poverty level. The bottom 20% of American families received only 5.4% of total income in 1974, while the top 20% of families got 41% of income. The bottom two-fifths got only 17.4%; the top two-fifths got 65.1%.

Income figures are among the shakiest—both in concept and in accuracy—of all the numbers that come out of the government statistics machine. They show money income before taxes, including

welfare and Social Security payments at the bottom, but not including capital gains at the top. Thus, they probably understate the width of the money gap between the rich and the poor. On the other hand, they do not include benefits in kind, such as food stamps for the poor. Consequently, they may make the difference in well-being between the bottom and the top look larger than it really is.

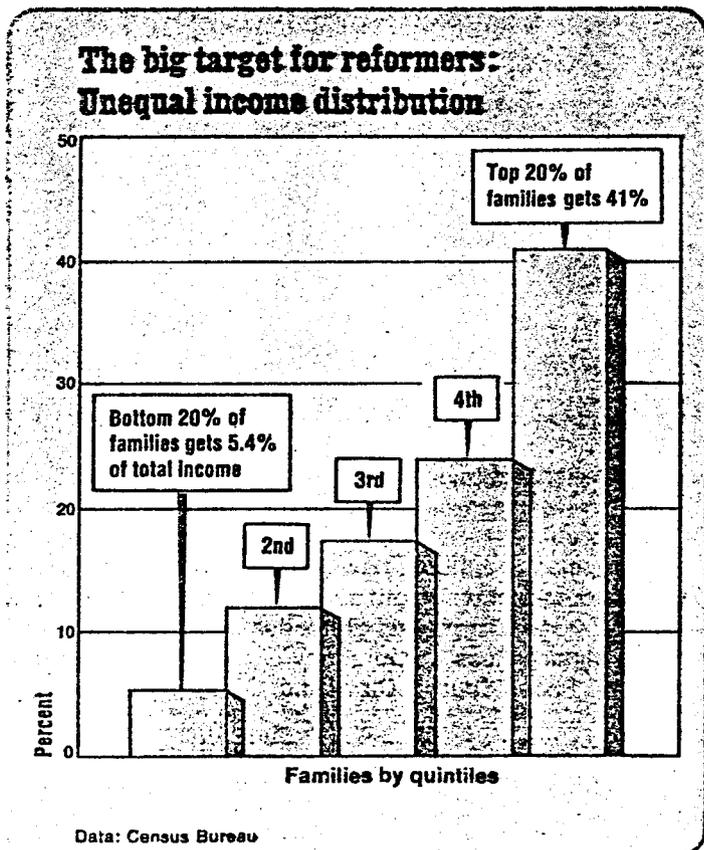
Over the long pull the figures show a small but distinct shift toward a more equal distribution of income. In 1935-36 the bottom fifth of families got only 4.1% of income, while the top fifth got 51.7%. A substantial part of this change came during World War II, when the U. S. got its first taste of full employment. But between 1950 and 1968, the share of the bottom fifth inched up steadily—from 4.5% to 5.6%. This trend has been halted for the past six years, suggesting that the great inflation has hit the low incomes somewhat harder than the top brackets.

The number of people living in actual poverty has decreased dramatically in the past decade. In 1974 the Census Bureau estimated that 24.3 million people were below the poverty line (\$2,495 for a single individual and \$5,038 for a nonfarm family of four). Ten years earlier 36.1 million people were below the poverty levels of that period. Even with an increase of 1.3 million, caused by the recession, the 1974 poverty total represents only 11.6% of the U. S. population, against 11.1% in 1973 and 19% in 1964.

The biggest change in incomes since World War II has not been in the shape of the curve but in the levels. The whole income structure has been moving steadily upward. Even when the figures are adjusted for inflation they show that each quintile of the population has been pushing up to higher real incomes. The median income of all U. S. families has risen from \$3,031 in 1947 to \$12,840 today. Deflated for price changes, this change still means that real income has doubled for the family that stands at the midpoint of U. S. income, with half of all families below it and half above it.

A complex problem. On their face, these figures seem to suggest that with a little patience the U. S. could achieve a good life for everyone—though not equality—by "leveling up"—expanding the total national income so that everyone gets a larger slice. Every President since Harry Truman has tried to use economic growth to increase incomes and open up new job opportunities. The upward shift in the income structure is characteristic of an expanding economy.

But it is not as simple as that. The income figures for the bottom brackets include massive government transfer payments—including Social Security, welfare, and veterans' programs. As Joseph Pechman of the Brookings Institution points out, without these transfers the income curve would have



Although all incomes have been moving up, growth is not enough to satisfy egalitarians. They want more at the bottom

shifted toward greater inequality in the past five years. Edgar K. Browning, in a study for the American Enterprise Institute, estimates that in 1973, transfers accounted for 69% of the income of the bottom one-fourth of all families. His definition of income, however, includes in-kind benefits, which he puts at 40% of total transfers. According to his calculations, net money transfers would account for nearly half of average income per capita in the bottom quartile.

To the real egalitarians all this is interesting but beside the point. The philosophical egalitarians like Herbert Gans of Columbia University and David Gordon of the New School of Social Research want equality for its own sake, not just as a means of reducing hardship in the bottom brackets. The minority leaders look at the figures and see that white males working full time in 1974 had a median income of \$12,434, while black males got \$8,705, and men of Spanish origin got \$9,007. Women compare a median income of \$6,957 for full-time work with the all-male median of \$12,152. Municipal workers, fearful of shrinking jobs, see 41% of all income in the top quartile where it could be taxed to support bigger payrolls. Social workers simply see 24 million people living in poverty.

From one source or another, the push for equality of income as well as equality of opportunity and legal rights builds up steam.

Four main strategies are open to the government that undertakes to change the shape of the income curve and promote greater equality. It can:

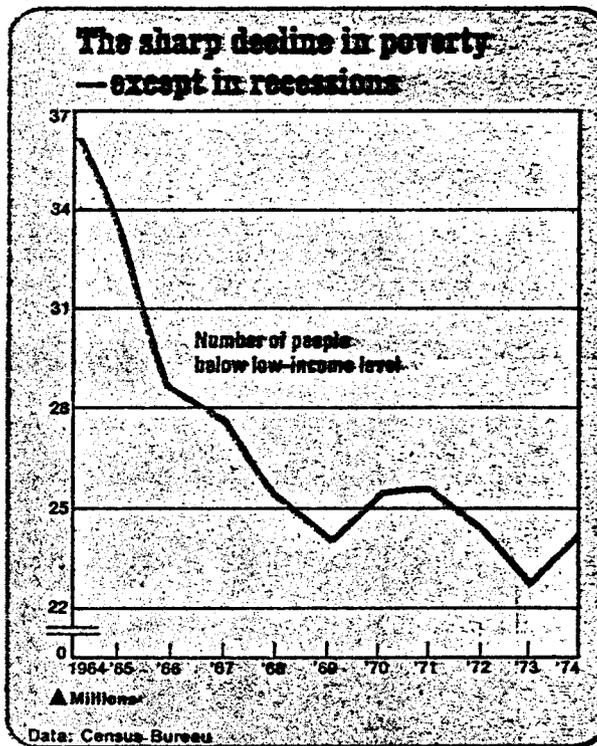
- Push affirmative action programs to ensure equal job opportunities and equal pay for minorities and women.
- Increase taxes on the higher income earners and reduce taxes on the lower brackets.
- Increase transfer payments and extend them into new areas.
- Provide or subsidize public services—recreational facilities, transit, hospitals, entertainment.

In the past decade, the U. S. has tried all four approaches. As the pressure for more equality mounts, Congress and the Administration will have to decide how much further they are prepared to go. In the past, it has been possible to vote benefits for the poor without specifically facing the fact that this meant less for the rich. With federal, state, and local budgets strained to the breaking point, there is no way now to duck the issue. More spending for the bottom can be financed only by more taxes at the top. The U. S. must ask and answer the question: Just how much equality do we really want?

Jobs and pay. In the area of jobs and pay, the question has already been asked and answered. Congress and the courts have firmly committed the U. S. to

equal job opportunities for everyone and equal pay for equal work. The federal government is pushing affirmative action programs in colleges—which are threatened with a shutoff in federal grants—and in private companies that want to do business with the government. As time goes on, this program undoubtedly will be strengthened and extended. The U. S. Commission on Civil Rights already has proposed a new government agency with power to enforce equal job opportunity anywhere it finds discrimination.

Affirmative action creates problems. It upsets long-established seniority rules, raises costs, and sometimes puts unqualified workers into critical jobs. Somewhere in the future there will be violent collisions between the groups backing affirmative action and the old-line unions that are still determined to restrict membership and preserve seniority rights.



Nevertheless, the U. S. is moving toward total equality in job opportunities and in the pay for a particular job. Over time, this will tend to establish what the economists call horizontal equality of incomes—equal rewards for equal performance throughout the economy. It will also tend to pull up the bottom of the income structure—by raising the pay of minority workers and women. If this narrows the gap between the top and the bottom, there will be a modest gain in vertical equality, but affirmative action by itself will not change the differentials between low-pay jobs and high-pay jobs.

The egalitarians, therefore, have to look elsewhere—to taxes, transfers, and public services—for mechanisms that will promote a significant move toward vertical equality in the U. S.

Tax leveling. Taxes are the obvious device, and every session of Congress yields a crop of bills designed to soak the rich and give tax exemptions to the poor. But the complex structure of U. S. taxes makes it

Affirmative action can create equal pay for the same job, but it takes taxes, transfers, and services to equalize income

hard to tell where the burdens would fall and what the consequences of a drastic change in tax policy would be.

The cornerstone of the federal revenue system is the individual income tax, which produced about \$122 billion in fiscal 1975. On its face, this is a highly progressive tax, with rates scaling up from 14% on the first \$1,000 of taxable income (for married couples) to 70% on everything over \$200,000. If the tax applied to all income, without deductions or exemptions, it would be a significant leveller.

The elaborate system of exemptions and deductions confuses the picture and takes more of the progression out of the rate structure. Until Congress enacted the minimum tax in 1971, it was possible for a rich man to put his money in sheltered investments and pay no tax at all. Presumably, he had to accept a lower rate of return on his investments, but if he was rich enough, that did not matter. Tax shelters are less important to the middle-bracket earners, but the net effect of exemptions and deductions undoubtedly is to make the income tax less progressive than it looks.

The corporate income tax, which yielded some \$40 billion in 1975, is progressive to the extent that shareholders bear the burden. But at least some of this tax is passed through to consumers in the form of price increases, and this bears more heavily on the low incomes than on the high. Federal excises tend to be regressive. So do tariffs.

Social Security taxes are a special case. This year employers and employees each pay 5.8% on the first \$14,100 of income. This obviously takes a bigger percentage bite out of incomes below the cutoff figure than incomes above it, and in that sense the tax is regressive. But the Social Security tax is, in a way, an insurance premium. The participant is buying an annuity. The benefits are scaled so that the lower-income recipients get a better bargain than the higher incomes. Thus, the system as a whole tends to be an equalizer.

State and local taxes tend to be regressive, although as more states adopt a graduated income tax, the bite on upper incomes is increasing. Property taxes, the mainstay of the school systems, bear most heavily on the lowest incomes, where housing takes a larger proportion of the family budget. And since property taxes are deductible from taxable income on the federal returns, their impact on the middle and upper brackets is cushioned.

Joseph Pechman, whose studies of taxes are considered authoritative, adds it all up and concludes: "The U. S. tax system is essentially proportional for the vast majority of families and therefore has little effect on the distribution of income. The very rich pay higher average effective tax rates than does the average family, but the difference is large only if the corporation income and property taxes are assumed to be borne by capital. If they are assumed to be shifted to consumers to a considerable degree, the

very rich pay tax rates that are only moderately higher than the average." (*Who Bears the Tax Burden?* by Joseph A. Pechman and Benjamin A. Okner, published by the Brookings Institution.)

If Pechman is right, the present U. S. tax system is not an equalizer. It takes roughly the same proportion of income out of each bracket, leaving the differentials between top and bottom unchanged. But the potential for equalizing clearly is there: Knock out the exemptions and demolish the shelters, increase the personal deductions, raise the top bracket rates, and treat capital gains as ordinary income. You would bring the after-tax income curve a good deal closer to equal distribution.

The rebate and temporary tax cut adopted early this year as an antirecession measure were heavily loaded in favor of the low and low-middle brackets. The rebate rose from \$100 at the bottom to \$200 at the \$10,800 level. Above the \$20,000 level it scaled back down, reaching \$100 at the \$30,000 level. The cut amounted to 47% of the total tax for a married couple (no dependents) with an income of \$5,000 but only 1% for the \$25,000 couple. The bill also included a novel feature—an "earned income credit" that paid up to \$400 to families with children whose earnings were in the bottom brackets.

President Ford's plan for a \$28 billion permanent tax cut would abolish the earned income credit, a proposal that critics call highly regressive. But actually the tax rates that Ford proposes would make the system a good deal more progressive than it is under either the 1974 schedule or the temporary 1975 rates. At the \$5,000 level, a couple with no children would get a cut of 81%, but a \$25,000 couple would get only 8%, and a \$50,000 couple 2%. Under the 1974 schedule, the \$10,000 couple paid 3.6 times the tax of the \$5,000 couple, though it had only twice the income. A \$20,000 couple paid 2.5 times the tax of the \$10,000 couple. President Ford's proposal would leave the \$10,000 couple paying 13.3 times the tax of the \$5,000 couple and the \$20,000 couple paying 3.5 times the tax of the \$10,000 couple.

The Ford Administration also is proposing to take two percentage points off the corporate income tax (now 48%). In a separate recommendation, Treasury Secretary William E. Simon has suggested allowing corporations to deduct half their dividends from taxable income and allowing stockholders a tax credit equal to half the dividends they received. Since the credit would have to be added to incomes and then subtracted from taxes, it would yield the greatest benefits to small investors with moderate incomes.

Surprisingly, the U. S. has never shown any real interest in tough estate and gift taxes, the device that the British have used to level the old class structure. By the skillful use of trusts and lifetime gift programs, it is possible to transfer enormous fortunes down through the generations more or less intact. And that is apparently the way the voters

Ford's tax-cut proposal: More for the lower brackets

Income	1974 tax	Ford proposal	Percent reduction
\$2,000	\$0	\$0	0%
3,000	28	0	100
4,000	170	0	100
5,000	322	60	81
10,000	1,171	800	32
15,000	2,062	1,750	15
20,000	3,085	2,780	10
25,000	4,240	3,905	8
50,000	12,380	12,080	2

*Married couple with no dependents

Mayors, governors, and local delegates are going to Washington to ask for massive expansion of help in providing public services

want it. Senator George McGovern lost labor votes in his Presidential campaign by suggesting a limit of \$100,000 on inheritances. Robert Nisbet of Columbia University observes that the American intellectual is "more hostile to the businessman who earned his money than to the man who inherited it."

Extending transfers. Transfer payments are a double-action lever. They shift money to the bottom brackets, and at the same time they increase the need for government revenue, which means heavier taxes on the middle and upper incomes. Unlike affirmative action programs, they are a powerful weapon for increasing the degree of vertical equality in the income structure.

In the second quarter of 1975, federal transfer payments, measured on the national income accounts basis, hit an annual rate of \$150 billion. This represented 42% of total federal spending.

It also represented a breathtakingly swift expansion in transfers. As recently as fiscal 1972, the total was only \$78.6 billion, or 33% of federal spending.

State and local transfers are harder to estimate, but they would add \$20 billion to \$30 billion to the 1975 total.

Not all of this money went to the poor, of course. The rich and poor alike draw Social Security benefits, and there is some spillover in medical care, aid to the blind, and other programs. But there is no question that without transfers, the bottom quintile of the income curve would get a much smaller share of the total.

Transfers have been the driving force in the expansion of the federal government apparatus in the past decade. The Health, Education & Welfare Dept., with 128,000 employees is now the biggest department in the government, with the exception of Defense and the Veterans Administration (195,000) which administers a huge transfer operation of its own. The "welfare industry," which reaches down through state and local governments to the kitchens of Harlem and the clothes closets of Los Angeles, has become one of the nation's biggest businesses.

Public services. The alarming growth rate and the multiplication of programs and subprograms are drawing heavy fire both from within the government and from without. Just before he left Washington, former HEW Secretary Caspar Weinberger lashed out at the "massive welfare state that has intruded into the lives and personal affairs of our citizens." He predicted: "If social programs continue growing for the next two decades at the same pace they have in the last two, we will spend more than half of our whole gross national product for domestic social programs alone by the year 2000."

Weinberger's answer to the "welfare mess" is to adopt "a completely new system that would be coordinated and administered through our tax system. . . . substitute a simple cash grant, based on

need, measured by income and payable only to those who meet a strong work requirement if they are able to work."

This is a variation of the negative income tax—a guaranteed minimum income for everyone. It has strong appeal not only for conservatives but also for the egalitarians, who would simply eliminate the work requirement and increase the benefits in Weinberger's plan. Eventually, some form of minimum income probably will replace the patchwork of overlapping programs that now make up the welfare system.

But in the immediate future, these programs are due for expansion rather than simplification. A national health program is almost a sure bet within the next few years. Day nurseries for the children of working women are one of the top demands of women's groups. Federal job programs to take up the slack in chronically depressed areas will get strong backing if the economic recovery does not generate a fast increase in employment.

The federal government will also be under mounting pressure to move deeper into the area of public services. The cities and states are close to the limit of their resources. They are calling on Washington to take over.

The federal government already is spending more than \$8 billion a year on education. Some of this takes the form of direct transfers—scholarships or loans to needy students—and some is earmarked for special programs such as aid to the handicapped. The rest goes to beef up school district budgets.

Housing programs, once a big item in the federal budget, have been suspended for the past three years, while the government tried to find a better way of encouraging building for low-income tenants. President Nixon proposed a system of rent subsidies for the poor, but the idea died in Congress. With the building industry still flat on its back and an acute housing shortage in prospect, a new program to provide low-income shelter is certain to be adopted sooner or later.

Mass transit is running deficits in city after city. Local governments dare not let the fare rise for fear of the voters' anger, but they find it increasingly hard to cover the loss. New York City clung to the 35¢ fare until the whole city was on the verge of collapse. Now it needs help to maintain a 50¢ fare.

And so all the mayors, governors, and local delegations to Congress converge in Washington to ask for massive expansion of federal help in providing public services. They will not get everything they want, but they are determined not to go home empty-handed.

As the egalitarians see it, people have a right to food, shelter, transportation, and entertainment. The business of government is to provide these things without regard to what they cost or where the money comes from. John Rawls, the philosopher most often quoted by the egalitarians, puts it simply: There can be no justification for differences in the conditions of individuals unless it can be shown that the difference benefits the inferior more than the superior.

This is the second of three articles on egalitarianism. The third, covering the conflict inherent in a system that combines political democracy with economic capitalism, will appear next week.

EGALITARIANISM: THE CORPORATION AS VILLAIN

When the Supreme Court laid down the rule of "one man one vote" in 1964, it opened a new phase in a conflict as old as the American republic: the conflict between a political democracy and a capitalist economy. The 1964 ruling strengthened the political power of the cities where the concentration of low-income voters is greatest. It thus encouraged the leaders of the low-income groups to seek greater equality of condition—more equal distribution of income, housing, consumer goods, and social status—as well as equality of rights in the U. S. system.

Except for a handful of intellectuals, the supporters of equality do not think of themselves as egalitarians. Their conscious aim is not to eliminate all differences in U. S. society. They simply want bigger incomes and a better life for the groups they represent. But with mounting political power, they see no reason to wait for the slow process of economic growth to lift the whole income structure to new levels. They want bigger incomes now, and if that means putting heavier loads on the middle and upper brackets, well, they can afford it.

This is the American version of egalitarianism. It is headed for a collision not just with the conservatives but also with the middle-of-the-roaders, who believe in restraining the role of government and letting the U. S. economic system make its own decisions as much as possible.

The old American ideal was "mobility." Immigrants were confident that if they could not themselves be rich, their children would have a chance to be. Farmers left the rocky soil of New England and headed West where a man could make his fortune. Itinerant peddlers with backpacks hoped someday to become department store tycoons—and some of them did.

James Bryce observed in *The American Commonwealth* (1888) that: "In America you cannot appeal from the classes to the masses. What the employer thinks, his workmen think. What the wholesale merchant feels, the retail storekeeper feels, and the poorer merchants feel. Divisions of opinion are vertical and not horizontal."

New class lines. That could not be said today. Public opinion in the U. S. has begun to divide along class lines—not hereditary classes as in 19th Century Europe but income classes determined by the economic and social system. Today's egalitarians have little faith in upward mobility. They see each individual assigned to a class or group—by color, sex, education, or accident. Instead of moving the individual out of the group, they want to move the whole group upward in income and social standing. They are unwilling to see anyone else move while they are still behind.

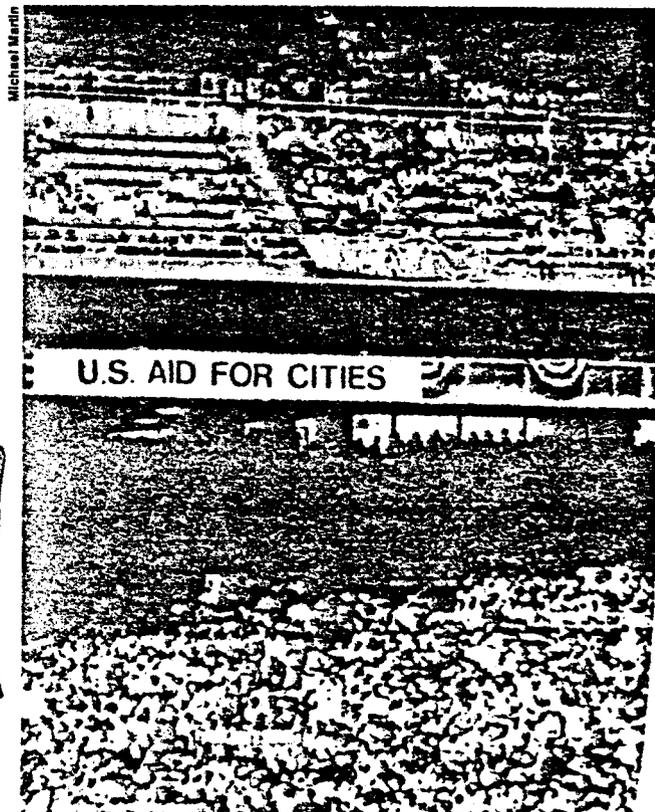
John Rawls, the Harvard philosopher, sums it up:

"In order to treat all persons equally, to provide genuine equality of opportunity, society must give more attention to those with fewer native assets and to those born into less favorable social positions. The idea is to redress the bias of contingencies in the direction of equality."

To the extent that redress means better education and more public services for the underprivileged, the U. S. system can accommodate it—at a price. When the principle is extended to mean equal pay for unequal work and advancement without regard to qualifications, egalitarianism comes into conflict with the basic principles of U. S. business, which relies on differentials in rewards to motivate all its workers from the assembly line to the executive suite.

Arthur Okun of the Brookings Institution says in his study, *Equality and Efficiency*, "In an economy that is based primarily on private enterprise, public efforts to promote equality represent a deliberate interference with the results generated by the marketplace, and they are rarely costless." The push for equality of results puts an increasing strain on what Okun calls the "split-level institutional structure" of U. S. society, which combines democratic government with a capitalist economic system.

Financial rewards (in the form of wages and profits) are the basic motivator in the U. S. economic system. Middle and upper incomes are the primary



In the inevitable conflict between a political democracy and a capitalist economy, big business is caught in the crossfire

source of capital for expansion. As the push for re-distributing incomes builds up, the basic question the U. S. must answer comes into focus: How far can this country go toward equality without destroying the effectiveness of the U. S. economy? Or to put it another way, can U. S. industry and business function effectively if the government intrudes on incentives, private ownership, and freedom of choice in the markets on a scale far beyond anything it has so far undertaken? Will anyone save part of his income to create new capital when saving is not rewarded by an increase in income?

The villains. The egalitarians' answer is that the great corporations already have wrecked the private enterprise system. Government intervention is the only way to put the economy back on the tracks.

The ancestors of today's egalitarians blamed rich men for their grievances. Andrew Carnegie and John D. Rockefeller (before publicist Ivy Lee started him giving away dimes) were public villains. The chorus of a popular song around the turn of the century was, "Morgan, Morgan, the great financial gorgon."

The modern egalitarians have transferred that hostility to the corporation. Taking their cue from Ralph Nader and the consumerist movement, the leaders of the push for equality blame big business for cheating the poor and rewarding the rich. They

see the corporation as a nameless, faceless, menacing manipulator of their lives. They resent the hierarchical structure of management, the payment of big salaries and bonuses to top executives, and the flow of dividends to stockholders. They blame corporations for high prices, for air and water pollution, and for depleting natural resources. Most of all, they blame corporations for not using their economic power to impose equality on their employees.

Hostility to business enables the leaders of the minority groups to form a loose coalition with the consumerists on the one hand and the environmentalists on the other. It is not a lasting alliance, because the only things that hold it together are distrust of business and unwavering faith in the necessity of government action on an expanding scale. However, on a particular issue, such as tax reform or decontrol of oil prices, it is strong enough to swing the decision against the corporations.

A capitalist system uses differences in wages and profits to make the economic machine operate just as a steam engine uses differences in heat and pressure to make the wheels turn. Wage differentials move workers from the less-productive industries to the more productive. Profit differentials move capital from decaying industries to growing areas.

Even the socialist and communist systems have found that pay incentives are the only way to get production. The Russians who began with the Marxian doctrine of total equality have developed a wider differential in real income between the bottom and the top than most U. S. corporations.

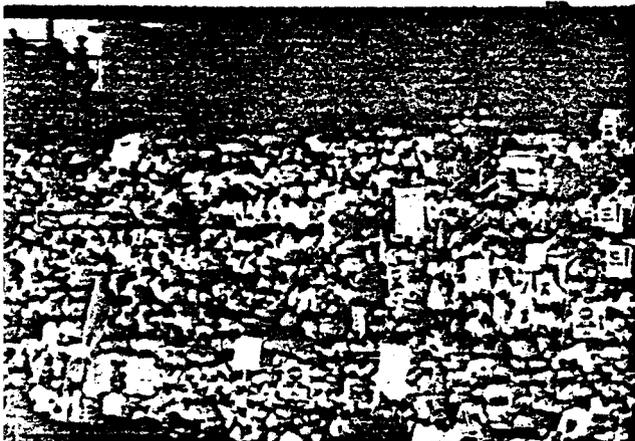
The egalitarians, therefore, face the problem of offering some other force than income differentials to keep the system running. And this is where they fall down. Aside from the argument, derived from Rousseau, that all members of a society must be forced to obey the general will, they cannot find a reason why anyone would take an arduous job when he could get the same pay in an easy one.

And so, they make their claims in terms of rights

The U. S. version of egalitarianism involves specific demands—bigger incomes, more services, more aid.



ULL EMPLOYMENT = MORE SCHOOLS



David Margolis



The egalitarians accuse corporations of cheating the poor and rewarding the rich and of not using their economic power to impose equality on their employees

without facing the question of efficiency. The list of rights claimed—and often conceded by legislation—is expanding rapidly. It covers not only education and health care but also adequate housing, cheap transportation, food, and clothing. As José Ortega y Gasset said of 19th Century workers in *The Revolt of the Masses*: "What before would have been considered one of fortune's gifts, inspiring humble gratitude towards destiny, was converted into a right, not to be grateful for, but to be insisted on."

Claiming a particular economic benefit as a matter of right shifts the emphasis of egalitarianism to equality of condition without appearing to change its nature.

Two dangers. There is little reason for business to fear a sudden heavy-handed equalization of U. S. incomes that would wipe out incentives and stop capital formation. The prospect is for a slow shift toward more equal incomes, which probably would have a stimulating effect on the U. S. economy, just as the big shift during and after World War II did.

Nevertheless, there are two great dangers in extending the concept of rights to the economic area. First, it threatens to feed the chronic inflation that plagues the U. S. economy. Second, it expands the role of government faster than the economy can grow and provide resources to cover the new programs. And repeatedly, government intervention in the economy has led to inefficiency, red tape, and higher costs.

Middle-income workers, especially the members of old-line trade unions, have no great objections to an increase in bottom-bracket incomes. But they are determined to maintain the traditional differentials between their jobs and the unskilled jobs at the bottom of the ladder. As minimum pay rises, they push for bigger wage increases and more fringe benefits in the middle of the pay structure. This is one of the forces driving cost-push inflation.

At the same time, rising government expenditures outstrip revenues, and massive government deficits generate demand inflation. The U. S. is caught on the horns of a dilemma. To raise revenues it would have to raise taxes on the middle-income brackets, increasing the cost-push of wage demands. If it does not raise revenues, it is stuck with chronic deficits.

It might be possible to go a fairly long way toward equality with a simple transfer system that guaranteed every family a minimum cash income, paid for by progressive taxes on the upper and middle brackets. This would narrow the spread of incomes, but it would still leave differentials wide enough to mollify the unions and to motivate workers at all levels. The total cost would be lower because there would be no need for a massive administrative apparatus. The Internal Revenue Service would simply process the returns and mail out the checks, just as it does with tax refunds.

But the U. S. has not chosen to handle redistribution the simple way. It has built a towering structure of welfare and allied programs that extends through every level of government—federal, state, and local. It has piled program on top of program, creating a complex system of benefits that only the professionals can manipulate. Administrative overhead runs up the costs and eats into the benefits available from each program. Health Education & Welfare and the Veterans Administration are the biggest departments in the federal government, except for Defense, and the HEW is by far the fastest growing.

The result, says former HEW Secretary Caspar Weinberger, is "a massive welfare state that has intruded into the lives and personal affairs of our citizens." Robert Nisbet of Columbia University calls it "The New Despotism" and remarks: "If we plot the development of social equality in Western society over the past few centuries, we find it follows almost perfectly the development of centralization and bureaucratization in the political sphere."

A case study. New York City, now teetering on the edge of financial collapse, is a case study of egalitarian disaster. New York has led the way in conceding the rights claimed by one group after another. Confronted with powerful unions, it has agreed to high wage scales and generous benefits, including retirement provisions that are the envy of workers in private industry. It has surrendered disciplinary powers over its workers and granted a long list of fringe benefits, such as excessive time off and unnecessary overtime pay.

The city's Human Resources Administration employs 25,000 workers who supervise a welfare program that costs nearly \$3 billion a year. The federal government pays half of this, and the state pays one-quarter, but the city still staggers under its share of the costs. Its reputation for running the most generous welfare program in the nation has drawn migrants from the South and from Puerto Rico, filling the slums and increasing the load on municipal services.

The City University of New York charges no tuition. Its open admissions policy means that every high school graduate has a right to attend.

As the city tax load has risen, business has moved out to the suburbs. New York is left with a growing pool of unskilled labor, a shrinking job market, and a budget that is out of control.

The federal government is not New York City. But if it follows the same path, it will wind up in the same place. The U. S. cannot afford to lay burdens on its workers and managers so great that they break down the market mechanism. Nor can it afford to expand its government so aggressively that private industry is crowded into a fast-shrinking corner of the economy. As Arthur Okun concludes his study, the nation must find "better ways of drawing the boundary lines between the domain of rights and the domain of dollars."

If it does not, the final word may be in the imagery of Ortega y Gasset: "The mob goes in search of bread, and the means it employs is generally to wreck the bakeries."

This is the last of three articles on egalitarianism. For reprints, see table of contents.