A Maximum Wage?

On September 11, 2002, exactly one year after history's most deadly assault on American civilians, a distinguished gentleman stepped to a simple podium at the front of Trinity Church, a grand old edifice that sits along New York's fabled Wall Street. The gentleman, William J. McDonough, would be the featured speaker in a ceremony to commemorate the tragedy that had shaken New York and the world.

McDonough had not been a 9/11 rescue worker, nor a near victim, and his remarks would not speak directly to the horror and heroism of that awful day. McDonough, the president of the Federal Reserve Bank of New York, would note instead the challenges ahead, the need to rally the wounded, to comfort the grieving, to rebuild the city, all endeavors that require us, at a basic moral level, to love each other as we would have others love us.

"Loving our neighbor as ourselves," the New York Fed president would then contend, "requires that the remaining imperfections in our democracy be corrected." [1]

McDonough asked his Trinity Church listeners to devote their attention to one imperfection "in particular": the gap between America's most privileged and everyone else. Two decades ago, he observed, top American corporate executives earned forty-two times more than average production workers. Today's top executives, he pointed out, earn over four hundred times the income of average workers.

"I am old enough to have known both the CEOs of 20 years ago and those of today," McDonough told the memorial assemblage. "I can assure you that we CEOs of today are not 10 times better than those of 20 years ago."

The vast increases in executive compensation over recent years, McDonough continued, have been "terribly bad social policy and perhaps even bad morals." Amid gaps as wide as these, he noted, how can the privileged purport to be loving thy neighbor as thyself?

"Is not my fellow worker," McDonough wondered, "my neighbor?"

Those of us who lead "lives of great comfort and success," the New York Fed president would go on, need to acknowledge that "our good fortune" has "very little to do with our own virtue." We have been lucky, he added. We have had fine genes, good health, loving parents, great teachers —"any and all of these

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got us where we are." Yes, McDonough noted, a market economy does require that some people "be rewarded more than others." But, he appealed, "should there not be both economic and moral limitations on the gap created by the market-driven reward system?"

America's economy, McDonough concluded, does need limits. Business leaders, he advised, "should simply reach the conclusion that executive pay is excessive and adjust it to more reasonable and justifiable levels."

In Trinity Church, on that day of commemoration, William J. McDonough did not speak on behalf of his fellow movers and shakers in American business. These movers and shakers do not share, not in public at least, McDonough's conviction that market-driven rewards can be economically and morally unjustifiable. But McDonough did give voice, on that solemn day in Trinity Church, to many millions of other Americans, fellow citizens who share his revulsion at our nation's "recent explosion of claimed privilege," and who believe, with him, that we must regain our "moral balance." These millions of Americans are ready — and willing — to limit "the gap created by the market-driven reward system." But they don't know how. Maybe these pages can help.

AMERICA'S BUSINESS LEADERS, William J. McDonough believes, have a moral responsibility to end compensation excess. If society appeals to this moral responsibility, he also believes, business leaders will see the light and take steps to limit the gaps that divide us. Society, in other words, need not legislate specific limits on excessive incomes. We can trust those who sit in executive suites to do, eventually, the right thing. The market, McDonough has faith, will in the end produce just outcomes.

Most Americans, over the last century, have not shared this faith. The marketplace, we concluded long ago, cannot separate right from wrong, cannot guarantee fairness and justice. Markets, experience had taught us, mix the weak and the strong. Without limits in place, the strong define what "fairness" should be — on wages and everything else — and then impose their decision.

We Americans did not want to live in that world. We insisted instead on new rules for the economy. We demanded legal protections for workers, for consumers, for the environment. In 1938, in one early rule-making triumph, we established a national minimum wage, a mandatory floor under wages.

A floor under wages made sense in the 1930s. That floor makes equal sense today. Markets simply cannot be trusted to determine how much constitutes too little. But what about too much? Can any marketplace where some have far more power than others be trusted to determine at what point rewards become excessive? If the strong, in the absence of limits, have the power to deny minimal wage decency to the weak, don't they also have the power to exceed decency for themselves, to accumulate income and wealth at inappropriate levels? Over recent decades, with income and wealth concentrating at unprecedented rates, this thought has troubled more than a few observers.

"Something seems wrong to me," as Lynn Shellenberger, a Minnesota community activist, noted deep in the boom years, "when we have a minimum wage and not a maximum wage for executives who make so much money."[2]

"Why have a floor," asked *St. Louis Post-Dispatch* columnist Bill McClellan about the same time, "and not a ceiling?"[3]

The notion of a maximum wage, a national income cap, actually first surfaced in the original Gilded Age. Back in 1880, amid the starkest inequality America had up until then ever seen, moral philosopher Felix Adler called for "an income tax graduated up to 100 percent on all income above that needed to supply all the comforts and refinements of life."[4] Adler, the founder of the Ethical Culture movement, would be a leading crusader for social justice in New York and the nation for the next fifty years. A young Franklin D. Roosevelt may have heard him speak, or read his work. In any case, as we have seen, FDR would propose his own maximum, a 100 percent tax on all income over $25,000.

Roosevelt, the greatest politician of his time, would prove unable to assemble much of a political coalition behind his income cap proposal. His allies likely saw FDR's "supertax" as a politically impractical declaration of war against the rich, a war that Roosevelt could not win. If income were capped at FDR's $25,000, after all, the wealthy would have felt themselves locked in place, fiscally frozen, left with no prospect of improving their material well-being. In that situation, the wealthy would have had but one choice: to battle against Roosevelt's cap by any means fair or foul. No cap would have been able to withstand their subsequent pressure.

But suppose FDR had proposed a cap, a maximum allowable income, *not* fixed at a particular dollar amount. Suppose FDR had asked Congress to set this cap, this maximum, not as a set amount, but as a multiple of the nation's minimum wage. If that approach had been proposed and adopted, if we had an income ceiling tied to an income floor, a maximum tied to a minimum, then the wealthy, to increase their earnings, would not have had to subvert or sidestep the 100 percent tax. They would have needed only to convince Congress to raise the minimum wage. By working to help others, they would have helped themselves. America's income tax system, if all this had taken place, would have become reciprocal, not just progressive. Wealthy people, by playing within this tax system's rules, would have been able to see their own individual income status improve.

Systems where all people can see themselves benefiting, at some level, are systems that can stand the test of time. An approach to leveling down that combined both progressivity and reciprocity just might have a fighting chance.

IF WE WERE, AS A SOCIETY, TO ACCEPT THIS NOTION that a maximum linked to a minimum might indeed help us, in James Madison's words, to "reduce extreme wealth towards a state of mediocrity, and raise extreme indigence toward a state of comfort," we would immediately face an obvious question. How wide a gap between top and bottom makes sense? How much income is enough? How much is too much?

Many economic analysts deem these questions inherently silly. As a society, they note, we cannot agree on what works of art ought to be labeled obscene. How could we possibly agree on the level of income we ought to label as obscenely excessive?

"Obscene," pay expert Graef Crystal has quipped, "is $1,000 more than I am making."[5]

But some denizens of the business world have been willing to take a stab at defining too much. In 1998, *Fortune* magazine asked a sampling of people in and around American business to pinpoint where they believe excess begins. The answers, predictably, varied.[6]

"Above $5 million I have serious questions," the Harvard Business School's Howard Stevenson responded. "That's the equivalent of earnings on between $50 million and $100 million in capital. That's $13,000 a day."

"One million dollars per year," Katie Herbert Douglass, a former CEO, opined, "is more than any person can spend."

To Stevenson and Douglass, anything more than $13,000 a day or $1 million a year simply *felt* too much. Do judgments as subjective as these have any value? Indeed they do, suggests ethicist Michael Josephson, a successful entrepreneur who left the business world to lead a national character-building campaign. The "ethical concept of too much," Josephson argues, derives from two sources. The first involves proportion. Income that *feels* unfair, that *seems* disproportionate, can legitimately be considered excessive. The second source involves economic markets. We can label as "too much," Josephson notes, any income "no longer driven by the marketplace but by artificial escalation."[7]

And what constitutes "artificial escalation"? Scholars have been wrestling with that question for years. They have poured over data, from all over the world, to discover whether any natural laws determine the distribution of income and wealth. This research carries enormous implications. If certain distributions do prove to be "natural," then concentrations of income and wealth beyond these natural distributions would be "artificial" — and in the interest of healthy societies to level down.

In 1988, a British economist, Sir Henry Phelps Brown, offered up a magisterial summary of much of this scholarly research.[8] Four years later, two Americans, economist Sidney Carroll and physicist Herbert Inhaber, jointly delved even deeper into the data.[9] The work of these scholars, taken together, may not prove *the* final word on income distribution. But their work does suggest a useful standard for determining where excess begins.

Henry Phelps Brown and the Carroll-Inhaber team, to help us understand how societies distribute income, both invoke the "parade" imagery of the Dutch economist Jan Pen. In a "Pen parade," every income earner in a society marches past us, in income order, lowest to highest, each person shrunk or stretched in height in proportion to the person's income. In these imaginary Pen parades, average income-earners march past us at what we would consider average height. The poor, proportionately sized, parade across as dwarfs, the rich, also proportionately sized, as monstrously tall giants.

Statisticians can reduce this dramatic Pen parade imagery to paper by charting what they call "cumulative frequency functions."[10] But we can create the same effect, more simply, by imagining all our society's income-earners lined up as marchers on a wide sheet of graph paper, the poorest and shortest to the left, the richest and tallest to the right. If we were to mark a dot above each marcher's head, then connect our dots, we would have a chart that tells the same story as a set of cumulative frequency figures.

Our chart, by connecting the dots from the short and poor on the left to the tall and rich on the right, would, of course, display a line that slopes upward. But here's the fascinating part. This line will always slope upwards at the same angle, no matter what existing society we choose to chart. Societies, in effect, all parade alike.

Up to a point, that is. In all societies, our parade chart line would slope gently upwards — until nearing the parade's richer end. At that point, the line would no longer maintain anything close to "a steady and gentle gradation."[11] The slope, at the rich end, would suddenly steepen. What had been a line gently sloping up would suddenly "kink" up dramatically.[12] This kink can vary, in the angle of incline, from society to society. But in all societies this sudden kink upwards amounts to a striking departure from the gentle slope that tracks the incomes of everyone except the very rich.

Below the kink, no income gaps of any consequence separate people at different income levels. People at the twentieth percentile level of income — that is, people who make more than 19 percent of a society's income-earners but less than the rest — always earn just slightly more than people at the nineteenth level, people at the fiftieth percentile level just slightly more than people at the forty-ninth. Everyone below the kink, notes Henry Phelps Brown, "rubs elbows with others who are a little better or worse off than he or she is."[13] Income gaps, Brown notes, do start to widen a bit at the eighty-fifth percentile, as incomes start reflecting not just wages and salaries from work, but return from property — dividends, interest, rents, profits from a business. But the gaps do not become terribly significant, do not widen precipitously, until much higher up the income distribution, at the ninety-seventh percentile. In the United States, Herbert Inhaber and Sidney Carroll have found, people at the ninety-seventh percentile level don't just make slightly more than people at the ninety-sixth percentile, they make enormously more.[14] Above the ninety-seventh percentile, these scholars show clearly, "the concentration of income rises at an exceedingly fast pace."[15]

Modern societies have, in effect, "two patterns of income distribution."[16] The first covers just about everybody, the second only the rich. If the first pattern covered everyone, if incomes above the ninety-seventh percentile only increased at the same gradual pace as incomes below, the rich would collect far less income than they actually do, particularly in the world's most unequal rich nation, the United States. The difference between what wealthy Americans would receive in income, if the first pattern of income distribution applied to everyone, and what they actually do receive constitutes what Inhaber and Carroll define as "too much," what we might call an "artificial escalation."[17]

A wise society, these two scholars suggest, would not tolerate this "too much." Nor would a wise society tolerate "too little" at the other end of the income scale. A wise, decent society would accept only that range of income inequality that seems to unfold, naturally in all societies, between too little and too much. And how wide is this "natural" range of inequality? Inhaber and Carroll offer some clues. In their 1992 book, *How Rich Is Too Rich?*, these two researchers focus their calculations on the 1987 tax year in the United States. The 1987 "too much" kink, they found, began at about the $112,000 income level. In that same year, the official poverty rate, for a family of four, stood at $11,611. The gap that year between the official federal figure for "too little" income and the Inhaber-Carroll estimate for "too much"? About ten to one.

That same ten-to-one ratio jumps out from the Pen parade analyses of Henry Phelps Brown. Indeed, before inequality in the United States started exploding in the 1980s, this same ten times ratio defined income distribution patterns in nearly every major American workplace, as Yale law professor Boris Bittker pointed out in 1977. Noted Bittker: "In virtually all institutions of our society — the universities with which we are especially familiar, the federal civil service, and business organizations save at the very top — the salary scale from bottom to top is confined to a ratio of 1 to 10 or thereabouts."[18]

In the ancient world, interestingly, philosophers defined a much narrower ratio as natural and appropriate. Plato pronounced the ideal ratio between the wealth of the richest and the wealth of the poorest to be four to one. Aristotle deemed the ideal ratio five to one.[19] But let's assume, for the moment, that a ten times ratio fits our modern world more appropriately. Could we ever apply a "Ten Times Rule," efficiently and simply, to incomes in a complex modern economy? Most certainly — if we keyed our Ten Times Rule to an already existing and widely accepted given of modern American economic life, the minimum wage. Ten times this minimum, if we took this approach, would become our maximum. All income above this maximum would then be subjected to federal income tax at a 100 percent rate. No American would have, after paying federal income tax, more than ten times the annual income of a minimum wage worker.

What about people earning incomes *below* the maximum but *above* the minimum?

A Ten Times Rule society could easily key *all* tax rates to the minimum wage, not just the tax rate applied to the wealthiest incomes. A maximum tied to a minimum, we have noted, would give rich people a vested interest in improving the well-being of poor people. Creating tax tables that linked all tax rates to the minimum wage would give everyone else in society that same vested interest.

In such a Ten Times Rule America, if you earned exactly ten times the minimum, you would pay 10 percent of your income in taxes. If you earned five times the minimum, you would pay a 5 percent tax. And if you made exactly the minimum wage, you would pay 1 percent of your income in taxes. The ultimate in tax simplicity. And also the ultimate in reciprocity. If you earned five times the minimum wage, you would do better personally — your tax rate would go *down* — if the minimum wage went *up*.

Do the math. Suppose the federal minimum wage stood at $6 an hour. Over a year's time, a minimum wage worker working full-time would earn $12,480. Let's round that off to $12,500, to keep our calculations simple. A couple working at minimum wage jobs would make twice $12,500, or $25,000 a year. Our "maximum" income would then be $250,000 for a couple filing jointly. A couple making half that, or five times the minimum wage, would be earning $125,000 a year. This couple would pay 5 percent of that $125,000 in federal income tax if the Ten Times Rule were the law of the land.

Now suppose a year passes. Congress raises the minimum wage, to just over $7 an hour. A minimum wage couple would then be earning $30,000 a year, and the 5 percent tax rate would, at this point, only apply to annual incomes five times the *new* minimum wage. That five times point would start at $150,000.

What would this mean for our couple that made $125,000 the previous year? That couple could see its income *increase* and its tax rate *decrease* all at the same time. If, for instance, the couple registered a 10 percent pay increase in the new year, bringing its income to $137,500, the tax rate applicable to that income would be just 4 percent, since the couple would no longer be making five times the minimum. Thanks to a higher minimum, this family would be paying taxes at a lower rate, despite a higher income.

In a Ten Times Rule America, all families would have reason to cheer higher minimum wages. For the poorest, a higher minimum would mean more income. For middle class people, a lower tax rate. For the rich, a higher permissible income. The better poor people would do, the better middle class people would do. The better the poor would do, the better the rich would do. Trickle down in reverse.

CAN WE ACTUALLY BE SERIOUS ABOUT setting a limit on annual income? Wouldn't an income limit be against the Constitution or something? Don't we live in a "free" country? Wouldn't a limit on our individual incomes amount to an attack on our individual freedoms?

Actually, in our modern world, no "free" people live without limits, not even in the United States. On our interstate highways, for instance, we enforce limits right and left. We limit who can use an interstate. No bicycles allowed. We limit how fast people can drive. We even limit the size of the signs that merchants can set aside the road. These limits all curb the "freedom" of individuals to engage in perfectly legitimate activities — to ride bikes, to accelerate cars, to advertise wares. But we accept these limits. Unlimited individual "freedom," we understand, can undermine our overall well-being.

Over recent decades, in our economy, we have operated on a contrary assumption. We have assumed, in economic matters, that all will turn out perfectly well if all of us just follow our own individual self-interest. Within our economy, consequently, we have relaxed limits on what individuals can do. We have reduced taxes on high incomes to encourage rich people to accumulate as much as they possibly can. A society where people are vigorously pursuing their own individual self-interests, our leaders preach, will ultimately evolve into a good and noble place. Greed, we assume, creates good.

But in real life, as opposed to market theory, greed — the single-minded pursuit of individual self-interest — creates more social chaos than social good. Behavior that may seem smart for an individual can prove incredibly dumb for society, or any social grouping, as economist Robert Frank has vividly noted.

"The individual who stands up at a concert achieves a better view, until everyone else stands," he points out, "then no one can see very well, and everyone pays the price of tired legs. Those who can't hear at a cocktail party raise their voices; soon all ears are ringing and everyone is hoarse."[20]

The unbridled pursuit of individual self-interest, thoughtful societies acknowledge, will always perversely impact community well-being. To protect this well-being, wise societies set limits. In our everyday lives, we take these limits, on everything from highways to hunting, for granted. We do not feel "less free" with these everyday limits in place. Would we somehow feel "less free" if *incomes* were limited?

Certain Americans, interestingly, already face income limits of sorts. In the United States, poor people confront income limits all the time. Medicaid recipients, for instance, are only allowed to earn so much. If they earn "too much," they lose their health insurance coverage and end up worse off. We also impose limits on certain incomes that sit further up the income distribution. Under IRS rules, for instance, nonprofits that compensate their executives at "excessive" levels can face stiff penalties.[21] The IRS even watches out for "excessive compensation" in the private sector. The owners of a small company, for instance, cannot pay themselves exorbitant salaries as a scheme to avoid paying out dividends to their fellow shareholders.[22]

Of late, some public officials have even dared set income limits at the summit of corporate America. Midway through 2002, in a highly unusual move, the Securities and Exchange Commission asked the federal judge overseeing the WorldCom bankruptcy to limit executive pay at the company. U.S. District Judge Jed Rakoff went along with that request. He directed an independent monitor to prevent WorldCom executives from raking in "unjust enrichment"— and barred WorldCom from paying any executive more than \$100,000 until the monitor was able to set up operations.[23]

All these "limits," to be sure, have remained largely invisible in American society at large. But one facet of American life does boast limits on income that have become familiar to tens of millions of Americans. Those tens of millions are America's sports fans. The professional football and basketball players these fans avidly follow all labor in a marketplace that has set rigid limits on incomes.[24]

These limits on pro athlete incomes enjoy the full support of football and basketball team owners. These incredibly rich men battled long and hard to impose salary caps on their players. They did not consider that battle an offensive against "freedom." They were merely trying, they explained, to save their sports from the chaos of compensation that had spun out of control. Sports would be more enjoyable for everyone, the owners argued, if owners and players operated in a marketplace where incomes were capped. Sports fans today accept this case for caps. For the sake of the game, most fans see absolutely nothing wrong with limiting player pay. Income limits in sports have become the American way.

Some nationally syndicated commentators would like to see this new American way extended into other areas of American life. Economist Robert Samuelson, for instance, feels America would be better off if we placed a cap on attorneys' fees. Lawyers, the conservative Samuelson argues, have come to care more about making fortunes than justice. "Every trial lawyer now dreams of a pot of gold," he asserts. To mine that goal, attorneys search high and low "to discover some 'deep pocket' from which immense damages — and legal fees — can be extracted."[25] The lawsuits these attorneys are filing, Samuelson charges, are squeezing billions of dollars out of law-abiding corporations, disrupting, in the process, the normal ebb and flow of commerce.

"The best way to stop the spread of self-enriching suits," he concludes, "is to remove the pot of gold or, at least, reduce it to a small pile."

Samuelson's solution?

"Let's put a cap on lawyers' pay," he impishly suggests. "If you're an attorney, you can make $1 million a year from lawyering or, perhaps, $2 million. Above that, the tax rate is 100 percent."

A $1 million or $2 million ceiling, says Samuelson, "would be high enough to attract bright, hard-working and even greedy people into the law." At the same time, that ceiling would be low enough to "curb predatory lawyering, which uses the law to amass personal fortunes of hundreds of millions of dollars."

How can Samuelson, a champion of free markets, justify *not* leaving attorney compensation to whatever the market will bear? The compensation lawyers receive, he explains, must "rightly yield to a larger public interest."

"The court system is not a proper arena for capitalist ambition," he notes. "Its integrity should not be mortgaged to the quest for personal riches."

Besides, adds Samuelson, only a relatively few people would be affected by a $1 million cap on attorney pay. If a $1 million cap were in place, lawyers "could still sue wayward companies and could still ask for huge awards for deserving victims." Only one thing would change: "Lawyers simply couldn't collect as much for themselves. They could become rich but not stupendously wealthy. There would be ample incentive for justice — and less for plunder."

Samuelson's case for limiting attorney pay makes some powerful points. And almost all these points could be applied, just as compellingly, to the business sectors that Samuelson so desperately wants to protect from greedy lawyers.

Is the health system, after all, a "proper arena for capitalist ambition"? The judicial system is supposed to do justice. The health system, America's biggest industry, is supposed to keep people well. Isn't there a "larger public interest" in keeping people well? Should the executives of America's HMOs and for-profit hospital chains and pharmaceutical companies be allowed to amass huge fortunes, as they do, by taking advantage of sick and vulnerable Americans? In health as in law, wouldn't there be more "incentive" to provide quality care — and less incentive "for plunder" — if the kingpins of America's health care corporations could only make so much and no more?

And don't Samuelson's arguments for income limits apply equally well to the communications industry? After all, don't we have a "larger public interest" in making sure Americans receive the news and information they need to govern themselves effectively in a democracy? And what about the transportation industry? Don't we have a "larger public interest" in making sure people can move safely from place to place?

Don't we, in fact, have a "larger public interest" in all industries? Doesn't every industry, at some level, exist to meet the needs of real individuals? Don't we, as a society, have an interest in making sure that these real needs, and not possibilities for plunder, remain uppermost in the minds of all industry executives? And if we do have this "public interest" in discouraging plunder everywhere in our economy, how can we justify subjecting only some people to income limits, be they athletes or attorneys?

SALARY LIMITS ON PROFESSIONAL ATHLETES, and professional athletes alone, may not be particularly fair, but they have become a fixture on the sports scene, as routine as layups. Modern-day sports fans see salary caps as good for the games they love. Could sports fans — and everybody else in America — someday come to see income limits on all high incomes as equally routine and necessary?

That could happen, but only if a broad American public first came to see grand concentrations of income and wealth as not a good to be encouraged but a danger to be avoided. The amassing of unlimited fortune, notes physicist Alan Cottey, would have to become "socially unacceptable, in much the same way that having an unlimited number of spouses is socially unacceptable."[26]

Naturally, if the idea of a "Ten Times Rule" ever began to capture public attention, many of our society's most wealthy would do whatever they could to make sure the rest of us considered limits on income — and not unlimited wealth — "socially unacceptable." The wealthy and their hired help would immediately and incessantly raise exactly three basic objections to the prospect of a "Ten Times America."

How can we be so sure? The eminently comfortable, whenever they face a challenge to their comfort, *always* raise three basic objections. So notes economist Albert Hirschman, a veteran analyst of the word games powerful people play. Apologists for an unjust status quo, Hirschman points out, invariably trot out three dire alarms the moment any serious proposal for social change surfaces.[27]

Bold attempts to transform society, influentials will first argue, are futile. These bold moves never really "alter the natural order of things." Second, influentials continue, those who persist in these futile exercises will come to see their handiwork "actually backfire and have the opposite of their intended effect." Third, influentials assert, campaigns to change society radically endanger the progress we have already achieved. Hirschman labels these "three staple claims of reactionary rhetoric" the *futility*, *perversity*, and *jeopardy* theses. Down through the ages, friends of fortune have regularly invoked variations on these themes to denounce any proposals that smack of "leveling down." Attempts at redistribution, they have argued repeatedly, amount to futile gestures that will, if pursued, only leave the poor poorer and civilization in shambles.

Apologists for greed particularly enjoy invoking the first of Hirschman's three theses, the futility thesis. Efforts to redistribute wealth, to help the poor by taking from the rich, make no sense, influentials for injustice relish arguing, because the wealthy simply don't own large enough fortunes. Billionaire oilman J. Paul Getty, the story goes, once received a letter that asked him to make the world a better place by sharing his wealth with every man, woman, and child on Earth. Old J. Paul sent back a check for 30 cents.

"Here's your share," read his cover letter.[28]

In 1997, one of America's most admired business leaders, Charles S. Sanford, Jr., made the same point, a bit less smugly, in an address to future business leaders. Sanford, the retired CEO of Bankers Trust, acknowledged the depth of America's unmet needs, then shifted to an offensive against leveling down.

"Could these immense social needs be satisfied by redistribution of existing or even foreseeable wealth?" he asked. "The answer is no. To totally redistribute all that we have now would simply result in poverty for all."[29]

That's not quite true. In fact, that's not true at all. By the mid 1990s, wealth in the United States had become so concentrated that a serious bit of redistribution could have actually made quite a sizable dent on poverty. Indeed, by the mid 1990s, a bit of redistribution could have eliminated poverty, as political scientist Andrew Hacker revealed in a book published the same year Charles Sanford dismissed redistribution as an exercise in futility. Hacker performed a series of calculations on income figures from 1994, then the most current year with data available.[30] In 1994, 1.1 million households in the United States made over $200,000, more money than the President of the United States. These 1.1 million households averaged, *after* taxes, $340,000 each.

Suppose, Hacker asked, people in 1994 had paid their normal taxes. Then suppose that the incomes remaining had been capped at $200,000, with all the dollars above that amount handed to the IRS and applied to redistribution. How much of a difference could those special redistribution dollars have made? Quite a difference. If incomes in 1994 had been capped in this fashion, the IRS would have collected, above and beyond normal tax collections, enough money to *double* the average income of America's poorest 19.8 million households, the households that then constituted the bottom fifth of America's income distribution. With this doubling, these households would have escaped poverty. Their average incomes would have jumped from $7,760 per household to $15,530.

In 1994, before taxes, households making over $200,000 averaged sixty-one times more income than households in the bottom 20 percent averaged. If Hacker's redistribution exercise had actually been conducted, that gap from top to bottom would have shrunk dramatically, down to thirteen to one.

Andrew Hacker did not have a Ten Times Rule in mind when he conducted his income-capping thought experiment. But what if we updated his exercise, on incomes from a more recent year, and keyed our calculations to the notion that no American, after paying taxes, should earn more than ten times any other? How significant an impact would Ten Times tax rates make on America?

We'll use as our reference year 2003.[31] Over the course of this year, a full-time worker making the federal minimum wage — $5.15 an hour — earned $10,712. A couple, with each spouse earning the minimum wage, would have earned twice that, or $21,424. If the Ten Times Rule had been in effect in 2003, our "maximum wage" for the year would have been ten times this annual minimum, or $214,240, for a couple filing jointly.

In 2003, America's richest 1 percent took home a great deal more than $214,240. These top income-earners averaged $1,082,000 for the year. If the Ten Times Rule had been the law of the land in 2003, households in this richest 1 percent would have paid a 10 percent tax on their first $214,240 of income and a 100 percent tax on all income above that $214,240.[32] The total federal tax due: $889,184, an amount that would have equaled 82 percent of the total income of the average top 1 percent household.

America's next richest 4 percent of households, in 2003, averaged $217,000 for the year, just a hair more than the $214,240 that would have been the 2003 maximum income. In a Ten Times Rule America, the average household in the next richest 4 percent would have paid $24,184 in federal income tax, a sum that would have equaled 10 percent of $214,240 and 100 percent of the tiny excess over that. These households would have paid 11 percent of their total incomes in federal income tax.

In 2003, the next most affluent 15 percent of America's households averaged $103,000, not quite five times the minimum wage for couples. These taxpayers would have, consequently, paid only 4 percent of their incomes, or

$4,120, in federal income tax under the Ten Times Rule. Down a rung, in the second most affluent 20 percent of Americans, households averaged $59,800 in 2003, a bit more than twice the annual minimum wage for couples. These households would have paid 2 percent of their incomes in federal income tax, or $1,196, in a Ten Times Rule America.

Our next 20 percent of Americans — the statistical "middle class" — averaged $36,600 per household in 2003, less than twice the annual income for a minimum wage couple. Middle-bracket taxpayers, under the Ten Times Rule, would have paid federal income taxes at just a 1 percent rate in 2003. They would have owed $366 in income tax.

The 20 percent of Americans below this middle fifth averaged $22,000 in 2003. They also would have been subject to just a 1 percent federal income tax in 2003. Their total Ten Times Rule tax bill would have come to $220.

Finally, households in America's poorest 20 percent averaged only $9,900 in income in 2003. Average households in this group made less, over the year, than the annual income of a full-time minimum wage worker. Under the Ten Times Rule, they would have owed no federal income tax at all.

Let's step back a moment. Let's compare these Ten Times Rule tax bills with the actual taxes due, in 2003, from Americans in these same income categories. An interesting pattern emerges. If the Ten Times Rule had been in effect in 2003, all households in the United States would have paid fewer dollars in federal income taxes than they actually did — all except the households in the richest 1 percent.

The tax savings for most households, under the Ten Times Rule, would have been substantial. Households at the exact middle of America's income distribution would have paid, in a Ten Times Rule America, 1 percent of their income in federal income taxes. They actually paid taxes in 2003, *after* the year's Bush administration tax cut, at a rate over three times as high, 3.6 percent.[33]

In a Ten Times Rule America, even affluent households just below America's economic summit would have seen a tax break in 2003. Households in America's ninety-sixth through ninety-ninth richest percentiles would have paid 11 percent of their average $217,000 incomes in Ten Times Rule income tax. These households actually paid federal income taxes in 2003 at a 16.9 percent rate.

In other words, if the Ten Times Rule had been in effect in 2003, average families would have seen their federal income taxes cut by almost three-quarters and families making around $200,000 would have seen their taxes cut by over a third.

Must be a catch, right? Wouldn't the federal government simply have gone broke if the Ten Times Rule had been effect in 2003? You couldn't cut taxes for 99 percent of Americans, increase them for just 1 percent, and expect the government to do everything it did before, could you? Actually, you could. If the Ten Times Rule had been applied to American incomes in 2003, the *increase* in revenues the government would have collected from the richest 1 percent of

Americans would have offset, and then some, the *decrease* in revenues from the bottom 99 percent of America's taxpayers.

In 2003, if all income over the $214,240 Ten Times annual maximum had been subject to a 100 percent tax, the richest 1 percent of Americans would have paid $1,200 billion in federal income taxes.[34] The rest of American taxpayers, under the Ten Times Rule, would have paid a bit over a fifth of that, bringing total Ten Times Rule federal income tax revenues to $1,463 billion.

For 2003, under our existing individual income tax rates, the federal government will actually end up collecting about $1,006 billion in revenues, *over $450 billion less* than the government would have collected had the Ten Times Rule been in effect.[35]

In budget terms, how significant could this added $450 billion have been? Consider this: In 2003, the entire federal budget, outside of spending for the military, Social Security, and Medicare, only amounted to $388.7 billion.[36] Adding $450 billion to the federal budget in 2003 would have more than doubled the federal government's capacity to provide services to the American people.

And what could the federal government have done with all this new budget capacity? Those additional hundreds of billions could have guaranteed all working parents safe, quality, low-cost child care. Those billions, shared with local governments, could have rehabilitated old housing stock and expanded the availability of affordable places to live. Those billions could have funded afterschool programs that keep teenagers out of trouble. Or lowered the cost of bus fares. Or placed reading aides in every first grade classroom. Or halved tuitions at America's public universities. Or bankrolled health insurance for every American family. In fact, with nearly a half trillion new dollars, our nation would have had the resources to do, in some variation, all of the above. In 2003, if the Ten Times Rule had been in effect, we could have begun renewing the American dream.

IN A TEN TIMES RULE AMERICA, on paper at least, we could raise enough new revenue to make an incredible difference in the lives of every working family. But what about the real world, not the paper version? In real life, would the Ten Times Rule actually raise the revenue our calculations suggest? That would depend — on America's rich people.

The Ten Times Rule would only be able to renew America if the IRS successfully collected hundreds of billions of new tax dollars out of the incomes of America's richest 1 percent. And the IRS, in turn, would only be able to collect those hundreds of billions if America's rich continued earning annual incomes far above the Ten Times maximum. But why, if the Ten Times Rule ever became law, would rich Americans bother earning money above the Ten Times maximum? Why would they work to earn income that would be completely taxed away? What sense would that make?

Friends of fortune would immediately, and gleefully, raise questions like these if the Ten Times Rule were ever to become a matter of serious public debate. If the wealthy behaved rationally and stopped working once they hit the maximum income threshold, the skeptics would note, the IRS would have no "excess" income to tax. Tax collections overall would not rise. They would sink. New government programs would be out of the question. With a Ten Times Rule in effect, friends of fortune would insist, the government wouldn't even be able to afford old programs!

In other words, the classic perversity thesis: A cap on our highest incomes wouldn't raise government revenues. A cap would lower them. Slicing the economic pie to give rich people smaller pieces would merely guarantee smaller pieces for everyone!

In the 1990s, apologists for inequality invoked this perversity thesis whenever they felt a need to swat away talk about capping incomes. In 1998, for instance, *Barron's*, a business journal, cast a skeptical eye at Andrew Hacker's what-if experiment with a $200,000 income cap. A 100 percent tax on all income over $200,000, *Barron's* commentator Gene Epstein pronounced, would never raise much revenue. A cap on income over $200,000 would instead "impose crippling disincentives on risk-taking and work effort" — and "soon diminish the size of the pie the redistributionists so enjoy slicing."[37]

"Why struggle to become the CEO," Epstein added, "when you won't be compensated for taking on his headaches?"[38]

Income caps, agreed conservative columnist George Will a year later, will always perversely impact the public purse. Consider the likely outcome, Will asked in a 1999 column, if incomes above $1 million were subject to a 100 percent tax.

"No one would earn the one-millionth dollar, thereby triggering the confiscation," Will predicted, "so the revenue yield from the 100 percent rate on millionaires would be zero."[39]

Zero? George Will's "zero" prediction would certainly be right on the mark if rich people, like average people, actually *worked* for their income. No rational person is ever going to labor for dollars that will all be funneled to a tax collector. But America's highest incomes don't come from labor, from work, from sweat, from personal effort. America's highest incomes come, overwhelmingly, from the ownership of property.

Wealthy Americans, unlike average Americans, owe most of their incomes to their fortunes. Wealthy people don't have to punch time clocks or fill out timesheets to earn a living. They can live quite luxuriously without ever having to move a muscle, "except, perhaps," as Robert Reich quips, "to speed-dial their brokers."[40]

Indeed, in America today, the higher your income, the less you rely on actual "work" to make ends meet. In 2000, for instance, Americans making between $200,000 and $500,000 received 58 percent of their incomes from wages and salaries. Americans who made $1 million or more that same year received just a third of their incomes, 33 percent, from wages and salaries. Most of their income came from other sources — everything from dividends and interest to capital gains and business profits. Taxpayers who reported at least $10 million in 2000 received even less of their incomes from paychecks, just 25 percent.[41] And the very richest Americans? In 2000, wages and salaries accounted for only 16.7 percent of the income of America's 400 richest taxpayers.[42]

What do these figures mean for our Ten Times Rule? A great deal. Income from labor can be turned off, like water out of a spigot. Income from wealth never stops flowing. In a Ten Times Rule America, wealthy people angry about paying taxes at a 100 percent rate could certainly choose to stop working. But they could not stop their wealth from working. That wealth would continue to generate income. And that income, above the Ten Times maximum, would be taxed 100 percent.

OVER RECENT YEARS, MORE SOPHISTICATED PURVEYORS of the perversity thesis have given the classic arguments against high taxes on high incomes a new twist. These more sophisticated apologists for inequality do not prattle on about wealthy people losing their incentive to work.[43] High taxes on high incomes, this new perversity school argues, will always fail to raise revenue for a different reason. Wealthy people taxed at high levels, the argument goes, merely maneuver to take their income in less taxable forms, as nontaxed perks, for instance. These maneuvers reduce the total amount of income a government can tax. The government, as a result, collects fewer overall tax dollars.

As proof, these new perversity theorists point to the 1993 federal legislation that raised the top individual income tax rate from 31 to 39.6 percent. Despite a growing economy, they note, taxpayers in America's top income brackets reported less taxable income in 1993, after the increase, than they had reported in 1992.[44] The conclusion: The rich, in the face of higher tax rates, will rearrange their personal finances to deny tax collectors the increased revenues they expect to receive from higher tax rates on high incomes.

But the data from 1992 and 1993, University of Chicago economist Austan Goolsbee later demonstrated, prove nothing of the sort. Upper bracket taxable income, Goolsbee's work would show, did drop off dramatically in 1993, but largely because corporate executives, at the end of 1992, had rushed to cash out stock option windfalls before the newly elected Clinton administration could take office and raise tax rates.[45] Taxable income did not disappear. Instead, this income merely showed up in a different year.

Hiking tax rates on the wealthy, Goolsbee would go on to note, "can lead to dramatic shifting of taxable income in the years immediately surrounding a tax change," and that shifting may allow many wealthy people "to avoid taxation for a short period of time." But, over a longer span, taxable income totals don't change much. The taxable incomes of the rich, Goolsbee concluded after analyzing upper-bracket incomes throughout the twentieth century, do not increase when tax rates become less progressive and do not diminish when tax rates become more progressive.

Would that same finding hold true if America's wealthy faced, at tax time, a tax as drastic as a 100 percent levy on all income above a Ten Times maximum? Or would the wealthy feel impelled, in the face of a tax this drastic, to take drastic action of their own, action that might indeed significantly diminish America's sum total of taxable income? Might rich people simply flee a Ten Times Rule America — and take their fortunes with them?

Wealthy people have, to be sure, threatened to flee America in the past. Over a century ago, in the 1894 debate over whether America needed an income tax, high society doyen Ward McAllister made that threat explicit. If members of Congress levied a 2 percent income tax, he declared, they would drive "rich men to go abroad and live."[46]

The wealthy today still play McAllister's exit card. In fact, suggests British philosopher Alex Callinicos, the exit threats of the rich have come to dominate our global political and economic life. We live, he notes, "in the shadow of the blackmail of capital."[47]

"A small group of corporate rich," Callinicos explains, "move their money from country to country in the search of the highest return. They are able, with a large degree of success, to demand that public policy is tailored to suit their needs."

If their demands are not met, if they are subjected to taxes they deem too high or any other inconvenience, these wealthy power brokers threaten to invest their dollars elsewhere. Don't let that happen, they urge governments. If we and our dollars exit, they predict, your poor will lose jobs and opportunity. This "prediction," notes Callinicos, amounts morally to extortion. Corporate leaders who predict the pain they have the power to inflict, he points out, occupy the same moral plane as the "kidnapper who predicts that the child he has taken will suffer unless his parents come up with the ransom money."

In a Ten Times Rule America, or an America about to enact a Ten Times Rule, would the wealthy resort to this sort of extortion? Would they threaten to leave? And would they actually make good on that threat? Would they exit the United States en masse, fortunes in hand, if America's lawmakers ever enacted any measure that resembled the Ten Times Rule? Almost certainly not. In a Ten Times Rule America, a mass exodus of the wealthy would be about as unlikely as a mad rush by CEOs to take jobs in mailrooms.

WE LIVE IN A WORLD WHERE FEW RICH PEOPLE keep their fortunes under mattresses. In the United States, as elsewhere around the globe, wealthy people have their fortunes invested in marketable assets, everything from stocks and bonds to real estate. America's wealthy hold staggeringly enormous quantities of these assets, several trillions of dollars worth.

The passage of a Ten Times Rule — a tax on *income*, not wealth — would actually leave all these assets completely untouched. A Dallas real estate magnate who owned ten square blocks worth of downtown Dallas on the day a Ten Times Rule first became law would still own those same ten square blocks one year later — unless, of course, that Dallas real estate magnate had decided, in the meantime, to get out of the Dallas real estate business. Would our office building king, in a Ten Times Rule America, make that decision? To avoid paying Ten Times tax, would he pull up stakes and relocate himself and his fortune somewhere else?

Exiting Dallas whole hog might strike our real estate tycoon, at first blush, as an eminently sensible option. If he stayed put in Dallas, all those millions in rents he had been making, all his income above ten times the minimum wage, would be taxed away. And that income would be taxed away even if he moved his personal home address to another country. Governments tax income where income is earned. Our magnate, if he wanted to hold on to his Dallas office buildings, would have to pay a Ten Times tax on the income from them, even if he went off to live in a country without a Ten Times Rule.

So our Dallas deep pocket wistfully concludes he has no choice. He starts making plans to pull out of town entirely. He will sell his office buildings, pocket the profits, and reinvest his fortune in some convivial, less taxing nation. That won't be so bad, he tells himself. He can always watch his beloved Cowboys on satellite TV.

Hold on a minute. Our magnate suddenly realizes that leaving might not be such a good idea after all. If he sells his buildings, his profits from that sale, his capital gains, would count as income and be subject to the Ten Times tax. Those millions in profits he planned to invest abroad would almost all be taxed away. He might as well stay put in Dallas.

But hold on just another minute. If our real estate magnate had done some thinking in advance, couldn't he have avoided the Ten Times tax on his capital gains — by unloading his assets as soon as he realized that a Ten Times Rule was about to be enacted? If he went that route, if he sold his buildings before the Ten Times Rule actually went into effect, he would have paid taxes on his capital gains at pre-Ten Times Rule tax rates. Our magnate then could have left the United States with suitcases stuffed with cash, invested his bundle overseas, and lived happily ever after.

Nice try. But that dog won't hunt either. In an America about to implement a Ten Times Rule, all wealthy people, not just our clever Dallas office king, would be thinking about selling off their assets to avoid Ten Times taxes. But if all these wealthy went ahead and tried to cash out, or even if just a good many of them went ahead, the marketplace would be awash with the assets of the wealthy — office buildings, shares of stock, mansions, fancy cars, whatever. A marketplace awash with these assets would be a buyer's market, and in that buyer's market the assets of the wealthy would plummet in value. America would see a veritable fire sale on grand fortunes. Wealthy refugees from a Ten Times Rule America, after selling off their assets at fire-sale prices, would have to start their new lives on foreign soil with only a fraction of their former net worth.

And these wealthy refugees would face, in their new homes, one inevitable final insult. They would have escaped the Ten Times Rule. But they would not have escaped high taxes on high incomes. The nations where Americans fleeing the Ten Times Rule would most likely want to relocate — nations where they could invest their pared-down fortunes safely and securely — would be the nations least likely to give wealthy Americans a significant tax break. The safest and most stable havens for investment, outside the United States, have been and will be, for years to come, the developed nations of Western Europe and Japan. All these nations have, over the last quarter century, levied higher taxes on the wealthy than the United States. These higher taxes did, to be sure, drop some in the late 1990s, but only because, in a globalized economy, European and Japanese lawmakers could not maintain high taxes on high incomes at the same time the world's greatest economic power, the United States, was taxing the wealthy at rock-bottom rates.

If the United States were to change course and adopt a Ten Times Rule, Western Europe and Japan would no longer feel pressured to lower taxes on their own wealthy. Their tax rates on high incomes would likely rise, at least back to their previous levels. Wealthy refugees from a Ten Times Rule America would face, in Europe and Japan, tax rates considerably stiffer than the rates they once enjoyed back in the United States.

Some nations, of course, *would* lay out a low-tax welcome mat for refugees from a Ten Times Rule America. But these would be the nations where wealthy Americans would be least likely to want to settle and invest. These would be economically and politically unstable nations, with little to make themselves attractive outside puny tax rates on wealthy people's incomes. More stable nations would see no need to lower tax rates to attract wealthy Americans, not in a world where the United States had enacted a Ten Times Rule.

All this would no doubt eventually become clear to our Dallas real estate magnate, clever man that he is. In a Ten Times Rule America, Dallas would remain his home. No other choice would make sense. If he moved overseas, but left his assets back in Dallas, the income from those assets would still be taxed at Ten Times rates. If he sold his assets, he would pay Ten Times rates on his capital gains — and then have to pay lots of taxes on his new real estate empire in downtown Düsseldorf. And if he tried to outsmart the Ten Times Rule, by selling off his assets before Ten Times taxes went into effect, he would take a bath on the sale. But if our magnate stayed put in the Big D, he'd be making as much money as anybody else in town. And he'd still have his Cowboys.

This Ten Times Rule America, our clever magnate might just conclude, may not be such a bad place after all.

ALL AMERICA'S WEALTHY PEOPLE might not prove as reasonable as our Dallas real estate magnate should the Ten Times Rule ever become the law of the land. Some might even try to dupe the IRS. In fact, many might try to dupe the IRS, especially at first.

How many would succeed? Those wealthy tax avoiders who tried garden-variety tax fraud — padding executive expense accounts, for instance — would likely soon see the error of their ways. In a Ten Times Rule America, the IRS would be able to concentrate enforcement resources almost entirely on wealthy people. In a Ten Times America, these would be the only people with tax liabilities large enough to risk cheating to avoid.

Most families, in a Ten Times America, would be paying only 1 or 2 percent of their incomes in federal income taxes. Even more affluent families, those earning $200,000 a year, would be paying taxes at rates far below what they currently pay. Few of these families would see Ten Times tax rates as unfair abominations that deserve to be flouted. Most Americans, in this environment, would honestly pay their taxes. IRS tax fraud investigators would be free to devote their attention almost totally to taxpayers at the top.

Still, even with this focus, IRS investigators would not have an easy time of it. In our wired world economy, with currency constantly flowing in and out of countries as bits and bytes, IRS agents would face a bewildering array of subtle subterfuges. These maneuvers would pose a significant danger to a Ten Times Rule America, a danger historically known as "capital flight," the shady transfer of financial assets out of a country to avoid taxes, instability, or any other unpleasantness that might spook people with appreciable asset holdings.

"Capital flight" typically afflicts deeply troubled and deeply unequal economies. Russia, for instance, saw enormous capital flight in the 1990s, as suddenly wealthy entrepreneurs schemed to conceal their new fortunes. Various nations have, at times, tried to crack down on capital flight. Some have placed controls on short-term transfers of financial assets. Others have limited foreign currency purchases. But such measures, no matter how carefully drawn, seldom completely eliminate capital flight.[48]

A Ten Times Rule America, given these realities, would be foolish to expect too much from capital flight controls. Some wealthy income *would* escape the IRS. Some wealthy people *would* be able to cheat the Ten Times Rule. If that *some* became *many*, of course, the Ten Times Rule would collapse.

Would that some become too many?

If wealthy people want to avoid taxes *intensely* enough, history warns us, they will ultimately find a way. They will commit fraud. They will carve loopholes into the tax laws they detest. They will pound on politicians until they undo the laws that impose high rates on high incomes. No democracy on earth, over the long haul, has ever been able to buck this sort of pressure. No democracy has ever been able to maintain, generation after generation, tax rates progressive enough to keep income equitably distributed, tax rates effective enough to prevent dangerous concentrations of wealth and power.

So why should we expect things to be any different in a Ten Times Rule America? For one reason and one reason alone: The Ten Times Rule would add a new incentive into the political mix, an incentive that would give high-income people a reason to work *within* a progressive tax system, not just *against* it. In a Ten Times Rule America, society's most affluent wouldn't have to carve loopholes, pound on politicians, or sneak their wealth overseas to enhance their own personal financial well-being. In a Ten Times Rule America, society's most fortunate would always be able to enhance their own well-being simply by enhancing the well-being of society's least fortunate.

The numbers tell the story. Under the Ten Times Rule, every $1 of increase in the hourly minimum wage would immediately translate into an extra $41,600 a year into the pockets of America's most affluent.[49] In a Ten Times Rule America, wealthy people would have a powerful incentive to do good, not just well.

And how much good would they do? How high would the minimum wage climb in a Ten Times Rule America? We cannot say for sure. We do know that millions of affluent families would have ample reason to keep the minimum wage rising. At $7 an hour, a minimum wage would generate a $291,200 maximum for a couple filing jointly. An $8 minimum would generate a $332,800 maximum. Families currently making $332,800 pay about a quarter of that in federal income tax. In a Ten Times America, if the minimum wage were $8, they would pay just a tenth of their income in federal tax. In a Ten Times America, might not these families work, until they drop, for an $8 minimum?

AN $8 HOURLY MINIMUM WAGE. In an America debating the pluses and minuses of adopting a Ten Times Rule, that prospect would certainly cheer advocates for poor families — and immediately be denounced by friends of fortune. An $8 minimum, these friends of fortune would argue, would irresponsibly place America's entire economy in jeopardy. Yes, they would acknowledge, a "maximum" income tied to the minimum wage might increase the pressure for a significantly higher minimum. But that significantly higher minimum would jeopardize the job security of low-income people. Employers would never be able to afford an $8 minimum. America's lowliest workers would find themselves jobless. The economy, in a Ten Times America, would lurch into recession.

This, of course, is the "jeopardy" thesis, the third and final classic argument against bold attempts at social change. The higher minimum wages that would accompany a Ten Times Rule, apologists of privilege would argue, would inevitably place our nation's very economic foundation at intolerable risk.

Nonsense. Our nation has actually survived, quite nicely, with an hourly minimum wage worth *more* than $8. In 1968, in fact, the federal hourly minimum stood at $1.60 an hour. That $1.60 would have equaled in 2003, after adjusting for inflation, over $8.25 an hour.[50] What economic "damage" did this minimum worth over $8.25 wreak? None. The American economy sparkled throughout the 1960s, 1968 included. The decade saw jobs proliferate, poverty shrink, and average wages soar. All with a minimum wage that ran, in real value, about 50 percent higher than the $5.15 minimum wage on the books in 2003.

Our current lowly minimum wage would, in a Ten Times America, almost certainly rocket up quickly. How could it not? In a Ten Times America, the traditional advocates for higher minimum wages would suddenly be joined by legions of affluent people who never before had any reason to give the minimum wage a second thought. And if the minimum wage did jump to $8.25, society's maximum income would leap to $343,200. At that maximum, *fewer* than 1 percent of America's households would be paying more in federal income taxes under the Ten Times Rule than they actually paid in 2003.[51]

Indeed, with a minimum wage at $8.25, families in a Ten Times Rule America could earn $100,000 *over* the $343,200 max and still wind up at the end of the year with a tax bill no higher than their actual bill in 2003. The result: In a Ten Times America, only the top half of America's richest 1 percent would pay appreciably higher taxes. The income tax burden would fall, almost exclusively, on those who make fortunes from their fortunes.

These fortunes, under America's current tax laws, are constantly compounding, year after year, creating colossal concentrations of wealth and power that endanger almost everything we hold dear. In a Ten Times America, new colossal concentrations of wealth would no longer rise up. And already existing concentrations of wealth, in an America that adopted the Ten Times Rule, would grow no larger. All income from these concentrations, above the Ten Times maximum, would be taxed away.

Over time, all concentrations of wealth that existed at the adoption of the Ten Times Rule would begin cracking and splitting. At the death of their owners, these concentrations would be divided up among family members, becoming smaller with each successive division. Eventually, several generations down the line, *no* colossal private fortunes would cast a shadow across America's economic and political landscape.

But what about the years until then? In these intervening years, immensely wealthy people would still control great fortunes. Wouldn't these wealthy individuals still be free, in a Ten Times America, to invest their fortunes wastefully and irresponsibly? And wouldn't any wasteful, irresponsible decisions they might make negatively impact the sort of society the Ten Times Rule would have been adopted to help create?

In a Ten Times Rule America, some wealthy people would most definitely still control dynastic fortunes, for many decades. A Ten Times Rule would not be able to dictate the investment choices these wealthy individuals choose to make. But a Ten Times Rule could influence these choices — and give America's wealthy an incentive to build America up, not waste America away. The key to this building-up process would be a rather prosaic category of income that most Americans never encounter, the income from state and municipal bonds.

In the United States today, states and cities, sewer and school districts, and various other taxing authorities regularly issue bonds to raise funds for costly special projects. Bonds amount to loans. Someone who buys a $5,000 ten-year municipal bond is lending the city that sells that bond $5,000. In return, the city pays the lender interest. The lower the interest rate that needs to be paid to attract the lender, the better, of course, for the city.

State and local governments have, historically, counted on federal help to keep their interest costs low. That help comes through the tax code. The federal government levies no federal income tax on the interest income that state and local governments pay to people who buy their bonds. This "tax-free" feature makes state and local bonds most attractive to investors in upper-income brackets. For investors in these top brackets, tax-free municipal bonds can be better buys than taxable bonds that offer higher interest rates.

In 2002, for instance, affluent Americans in the top tax bracket paid a 38.6 percent tax on income over $307,051. For these Americans, a tax-free bond yielding just 4 percent interest would have been a better buy than a taxable bond yielding 6.5 percent interest.

Every so often, usually at times of intense budget crunch, some senator or White House official will make noises about ending the tax-free status of state and local bonds. State and local officials immediately raise holy hell. Without tax-free status for the bonds, they exclaim, state and localities would have to offer higher interest rates to attract investors. Countless important projects would quickly become far too expensive to afford.

These arguments always carry the day. The tax-free status of state and municipal bonds has become, in modern American politics, as sacred a cow as a cow can be.

How would a Ten Times Rule America — how should a Ten Times Rule America — treat income from state and local bonds? Should a Ten Times Rule continue to grant special treatment to state and local bond income?

That would be a tough call. Part of the appeal of the Ten Times Rule would be its simplicity. You make five times the minimum wage, you pay 5 percent of your income in federal income tax. You make ten times the minimum, you pay 10 percent. You make more than ten times, you pay a 100 percent tax on the excess.

That's it. No loopholes. No special deductions that privilege one group of taxpayers over another. Granting state and local bond income tax-free status would, of course, upset this basic simplicity. If municipal bond income were declared tax-free, affluent individuals would be able to sidestep the standard Ten Times income limit. But a Ten Times Rule America would have good reason, despite all this, to keep state and local bond income tax-free anyway. Keeping municipal bond income exempt from federal taxes would enable a Ten Times Rule America to steer the fortunes of the super rich into investments that directly benefit working Americans.

Imagine, for a moment, the dynamic that would be created if state and local bond income amounted to the only "loophole" to the Ten Times Rule. America's wealthy would rush to buy as many bonds as they could possibly afford. The income from these bonds, after all, wouldn't be taxed away, even if that income fell above the Ten Times maximum. The demand for tax-exempt state and local bonds would quickly soar to record levels.

This rising demand would place state and local governments squarely in the driver's seat. They would be able to offer miniscule interest rates and still find wealthy people eager to buy their bonds. Their bonds would be the only show in town, the only way wealthy people could make and keep money, above the maximum wage, inside the United States.

How low could interest rates go in this sort of investing environment? In 2002, with the top tax rate on high incomes at 38.6 percent, municipal bonds were yielding as low as 2 and 3 percent. In a Ten Times Rule America, with a 100 percent top tax rate, states and localities would likely find eager investors for bonds that yielded only a small fraction of 1 percent. These states and localities would, at that point, have hundreds of billions of dollars of rich people's money at their beck and call — at virtually no cost.

Those billions could be invested, in a thousand different ways, to restore and renew America's long-neglected infrastructure. New schools could be built. New water purification plants. New bridges. New transit lines. Each of these new projects would mean new jobs, more income for working people, more tax revenues to support public services. We would see, in effect, a Ten Times Rule chain reaction that would leave America stronger, healthier, cleaner, safer.

And what about our rich people? Would their tax-exempt income from state and local bonds undermine the Ten Times maximum limit? Not much. At a 0.25 percent rate of return, tax-free municipal bonds would generate little excessive income in a Ten Times Rule America. A wealthy individual over the maximum would have to buy $10 million dollars worth of municipal bonds to earn $25,000 worth of annual tax-free income. Fine. This $25,000 would be a small price to pay to access, for the public good, $10 million.

The municipal bond "loophole," in a Ten Times Rule America, would benefit average Americans in other ways as well. Low yields on state and local bonds would dampen interest rate levels throughout the economy. Mortgage rates would fall. Housing would become more affordable. More chain reaction. More reason to cheer a Ten Times Rule.

OVER A CENTURY AGO, A TRADE UNION editor, an immigrant named Karl Dovai, made what may be the first recorded case for a Ten Times Rule in America. Dovai had emigrated to the United States from Germany in 1848. In 1883, with the original Gilded Age in full bloom, he testified before the U.S. Senate Committee on Education and Labor. Sewing women, Karl Dovai told the Senate hearing, are currently earning 9 to 11 cents a day, tycoons like Jay Gould $10,000 an hour.[52]

"Suppose the difference between the highest and lowest wages will be as one to ten — that will perhaps be the most that will occur — would not that be better than it is now?" Dovai asked the assembled senators.

Life would have been better then, with a ten times income differential. Life would be better now. We turn now to better understand how.