Richest Are Leaving Even the Rich Far Behind

By DAVID CAY JOHNSTON, New York Times, June 5, 2005

When F. Scott Fitzgerald pronounced that the very rich "are different from you and me," Ernest Hemingway's famously dismissive response was: "Yes, they have more money." Today he might well add: much, much, much more money.

The people at the top of America's money pyramid have so prospered in recent years that they have pulled far ahead of the rest of the population, an analysis of tax records and other government data by The New York Times shows. They have even left behind people making hundreds of thousands of dollars a year.

Call them the hyper-rich.

They are not just a few Croesus-like rarities. Draw a line under the top 0.1 percent of income earners - the top one-thousandth. Above that line are about 145,000 taxpayers, each with at least $1.6 million in income and often much more.

The average income for the top 0.1 percent was $3 million in 2002, the latest year for which averages are available. That number is two and a half times the $1.2 million, adjusted for inflation, that group reported in 1980. No other income group rose nearly as fast.

The share of the nation's income earned by those in this uppermost category has more than doubled since 1980, to 7.4 percent in 2002. The share of income earned by the rest of the top 10 percent rose far less, and the share earned by the bottom 90 percent fell.

Next, examine the net worth of American households. The group with homes, investments and other assets worth more than $10 million comprised 338,400 households in 2001, the last year for which data are available. The number has grown more than 400 percent since 1980, after adjusting for inflation, while the total number of households has grown only 27 percent.

The Bush administration tax cuts stand to widen the gap between the hyper-rich and the rest of America. The merely rich, making hundreds of thousands of dollars a year, will shoulder a disproportionate share of the tax burden.

President Bush said during the third election debate last October that most of the tax cuts went to low- and middle-income Americans. In fact, most - 53 percent - will go to people with incomes in the top 10 percent over the first 15 years of the cuts, which began in 2001 and would have to be reauthorized in 2010. And more than 15 percent will go just to the top 0.1 percent, those 145,000 taxpayers.

The Times set out to create a financial portrait of the very richest Americans, how their incomes have changed over the decades and how the tax cuts will affect them. It is no secret that the gap between the rich and the poor has grown, but the extent to which the richest are leaving everyone else behind is not widely known.

The Treasury Department uses a computer model to examine the effects of tax cuts on various income groups but does not look in detail fine enough to differentiate among those within the top 1 percent. To determine those differences, The Times relied on a computer model based on the Treasury's. Experts at organizations representing a range of views, including the Heritage Foundation, the Cato Institute and Citizens for Tax Justice, reviewed the projections and said they were reasonable, and the Treasury Department said through a spokesman that the model was reliable.

The analysis also found the following:

¶Under the Bush tax cuts, the 400 taxpayers with the highest incomes - a minimum of $87 million in 2000, the last year for which the government will release such data - now pay income, Medicare and Social Security taxes amounting to virtually the same percentage of their incomes as people making $50,000 to $75,000.

¶Those earning more than $10 million a year now pay a lesser share of their income in these taxes than those making $100,000 to $200,000.

¶The alternative minimum tax, created 36 years ago to make sure the very richest paid taxes, takes back a growing share of the tax cuts over time from the majority of families earning $75,000 to $1 million - thousands and even tens of thousands of dollars annually. Far fewer of the very wealthiest will be affected by this tax.

The analysis examined only income reported on tax returns. The Treasury Department says that the very wealthiest find ways, legal and illegal, to shelter a lot of income from taxes. So the gap between the very richest and everyone else is almost certainly much larger.

The hyper-rich have emerged in the last three decades as the biggest winners in a remarkable transformation of the American economy characterized by, among other things, the creation of a more global marketplace, new technology and investment spurred partly by tax cuts. The stock market soared; so did pay in the highest ranks of business.

One way to understand the growing gap is to compare earnings increases over time by the vast majority of taxpayers - say, everyone in the lower 90 percent - with those at the top, say, in the uppermost 0.01 percent (now about 14,000 households, each with $5.5 million or more in income last year).

From 1950 to 1970, for example, for every additional dollar earned by the bottom 90 percent, those in the top 0.01 percent earned an additional $162, according to the Times analysis. From 1990 to 2002, for every extra dollar earned by those in the bottom 90 percent, each taxpayer at the top brought in an extra $18,000.

President Ronald Reagan signed tax bills that benefited the wealthiest Americans and also gave tax breaks to the working poor. President Bill Clinton raised income taxes for the wealthiest, cut taxes on investment gains, and expanded breaks for the working poor. Mr. Bush eliminated income taxes for families making under $40,000, but his tax cuts have also benefited the wealthiest Americans far more than his predecessors' did.

The Bush administration says that the tax cuts have actually made the income tax system more progressive, shifting the burden slightly more to those with higher incomes. Still, an Internal Revenue Service study found that the only taxpayers whose share of taxes declined in 2001 and 2002 were those in the top 0.1 percent.

But a Treasury spokesman, Taylor Griffin, said the income tax system is more progressive if the measurement is the share borne by the top 40 percent of Americans rather than the top 0.1 percent.

The Times analysis also shows that over the next decade, the tax cuts Mr. Bush wants to extend indefinitely would shift the burden further from the richest Americans. With incomes of more than $1 million or so, they would get the biggest share of the breaks, in total amounts and in the drop in their share of federal taxes paid.

One reason the merely rich will fare much less well than the very richest is the alternative minimum tax. This tax, the successor to one enacted in 1969 to make sure the wealthiest Americans could not use legal loopholes to live tax-free, has never been adjusted for inflation. As a result, it stings Americans whose incomes have crept above $75,000.

The Times analysis shows that by 2010 the tax will affect more than four-fifths of the people making $100,000 to $500,000 and will take away from them nearly one-half to more than two-thirds of the recent tax cuts. For example, the group making $200,000 to $500,000 a year will lose 70 percent of their tax cut to the alternative minimum tax in 2010, an average of $9,177 for those affected.

But because of the way it is devised, the tax affects far fewer of the very richest: about a third of the taxpayers reporting more than $1 million in income. One big reason is that dividends and investment gains, which go mostly to the richest, are not subject to the tax.

Another reason that the wealthiest will fare much better is that the tax cuts over the past decade have sharply lowered rates on income from investments.

While most economists recognize that the richest are pulling away, they disagree on what this means. Those who contend that the extraordinary accumulation of wealth is a good thing say that while the rich are indeed getting richer, so are most people who work hard and save. They say that the tax cuts encourage the investment and the innovation that will make everyone better off.

"In this income data I see a snapshot of a very innovative society," said Tim Kane, an economist at the Heritage Foundation. "Lower taxes and lower marginal tax rates are leading to more growth. There's an explosion of wealth. We are so wealthy in a world that is profoundly poor."

But some of the wealthiest Americans, including Warren E. Buffett, George Soros and Ted Turner, have warned that such a concentration of wealth can turn a meritocracy into an aristocracy and ultimately stifle economic growth by putting too much of the nation's capital in the hands of inheritors rather than strivers and innovators. Speaking of the increasing concentration of incomes, Alan Greenspan, the Federal Reserve chairman, warned in Congressional testimony a year ago: "For the democratic society, that is not a very desirable thing to allow it to happen."

Others say most Americans have no problem with this trend. The central question is mobility, said Bruce R. Bartlett, an advocate of lower taxes who served in the Reagan and George H. W. Bush administrations. "As long as people think they have a chance of getting to the top, they just don't care how rich the rich are."

But in fact, economic mobility - moving from one income group to another over a lifetime - has actually stopped rising in the United States, researchers say. Some recent studies suggest it has even declined over the last generation.