

The System IS Rigged

But by Whom and for Whom?

A staple of Bernie Sanders' 2016 campaign was that Wall Street and the top 1% were getting several lions' shares of income gains in this country and that they were taking advantage of the rest of us through various methods—some sketchy, some morally or ethically questionable, and some even possibly illegal—and have been able to count on their accomplices in the government to protect their spoils. But perhaps the “we are the 99%” slogan and protests should be downgraded to about 80%. Or as Pogo stated it: We have met the enemy and he is us.

(In *Dream Hoarders: How the American Upper Middle Class Is Leaving Everyone Else in the Dust, Why That Is a Problem, and What to Do about It*, Richard Reeves takes aim at a broader group of winners. He offers some compelling insights until his peevish choices of sources, and politics get in the way.)

Why is drawing a 1% red line in the sand too narrow? First of all, those in the top 1% of income earners this year are there partially through abnormally large but one-off gains, including good fortune and other transitory factors, and thus they are less likely to be there permanently. To be sure, they won't slip into poverty anytime soon, but they may only make the top decile the next time around. On the other hand, most folks lodged somewhere in the top 20% of the income distribution at the moment will also be there in the next accounting period as well. And it only takes about \$110,000 to put a household into the top quintile, where one can fly under the radar and make off like a bandit.

BY ALLEN R. SANDERSON

Second, while a vivid reminder of substantial and increasing inequality, the top 1% has less political and economic clout than those in the broader top slice – the other 19 percent of the top quintile – directly below it. They are greatly favored by the tax code: itemization; home (or homes plural) ownership; non-taxable employer-provided health care; deductions for charitable contributions; and educational subsidies.

The home mortgage interest deduction – technically a “tax expenditure” – is a huge subvention and causes us to overdose on housing. About 40% of an American's market consumption basket

is for housing and housing-related amenities and services, far greater than the share in Europe, and three to four times what it is in China and India.

A \$1,000 donation to charity costs someone of modest means the full \$1,000; for a high-income individual, the net cost may be only about \$600. Whatever ultimately constitutes tax reform in 2018, the top quintile will guarantee that home mortgage and charitable deductions, the two largest loopholes by far, will emerge unscathed.

In Illinois, exempting many services from sales taxes and having an above average hit on goods consumed by families in the bottom half provide large benefits to the wealthy, as does taxing heavily particular items disproportionately consumed by the poor, such as tobacco products. Penalties for speeding, running red lights, and DUI offenses are highly regressive. How about making the fines for those violations 1% of one's monthly adjusted gross income, as several European nations do?

School funding formulas favor the top quintile. Which means their children are more likely to attend the flagship campus than the children of Illinois taxpayers in general, where politics keeps tuition well below costs. Instead, why not raise the “rack rate” to \$50,000 and then provide ample need-based financial aid, as private colleges and universities do? That way, the rich partially help the lower half, rather than the other way around. Tax-advantaged college savings plans are a complementary benefit for well-heeled families.

Of course, it's not just those in the top 1% or 20% who can play with a stacked deck. Fifty years ago, about a third of elderly Americans – those 65 and older – were officially classified as poor. Thanks to government programs, especially inflation-indexed Social Security benefits and Medicare, less than 10% of this group is poor today. In addition, grandpa and grandma have also been remarkably successful at securing and then protecting their gains via their K-Street special-interest lobbying organizations and their ballot-box clout. And as our population continues to age, they will constitute an ever bigger economic force.

Most *Chicago Life* readers are not “1 percenters,” but we are likely in the top quintile and thus benefit enormously from the status quo. At this time of year, in our holiday and year-end giving and jotting down of resolutions for 2018, let's recognize that we have it relatively good and therefore ought to be more generous of spirit and wallet in sharing with less fortunate Chicagoans. □

