Testimony before the Finance, Bonding & Revenue Committee
Re: H.B. 6557 – An Act Concerning the Income Tax and Estate Tax
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March 2, 2009

My name is Stephen Adair. I am a Professor and Chair of the Sociology Department at Central Connecticut State University.

I appreciate the opportunity to testify. I am commenting on **H.B. 6557 – An Act Concerning the Income Tax and the Estate Tax.** I encourage you to go further and adopt a more progressive income tax in Connecticut. I would like to put the question before you in an historical and comparative context as **no state has seen a more rapid increase in the degree of inequality than Connecticut. We are the poster child.**

In the current economic crisis, there are many parallels to the market crash in 1929. In most years in the U.S., the total amount of consumer debt has tended to be about one half of GDP. But between 2001 and 2007, it rose rapidly to nearly 100 percent of GDP, which had not been seen since 1929. In 2007, the wealthiest 1 percent of the population owned more than 40 percent of the total wealth, a degree of concentration of wealth that was also last seen in 1929.

These two figures are related because as the wealthiest gained a larger and larger slice of the total economic pie, the rest of us borrowed more to maintain, or perhaps unrealistically, to try to keep up. To think of the same thing in a different way, the tens of trillions of dollars invested in markets with the aim of doubling in value in seven to ten years required a level of consumption that exceeded the size of people's paychecks. To sustain the level of consumption necessary to realize the expected returns, people were encouraged to borrow. And so they did.

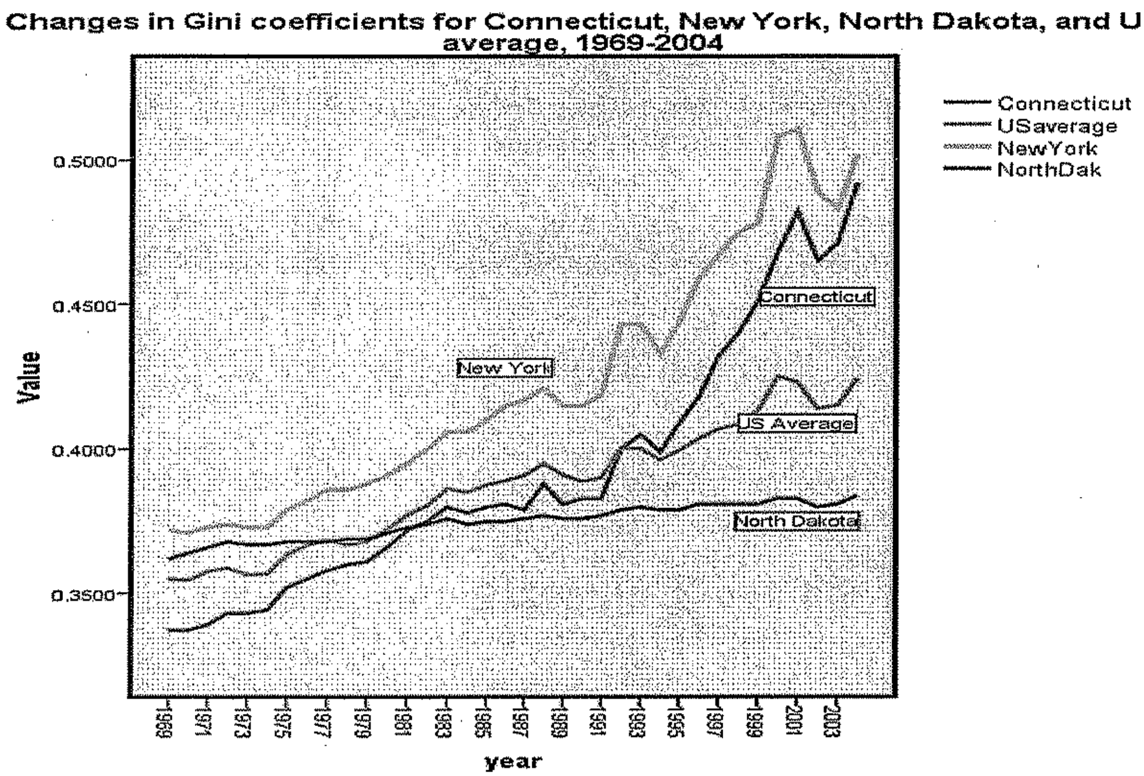
Growing inequality has many pernicious effects, but the most important is that it robs Americans of the promise that each generation can build on the previous one and improve the quality of life. Over the last 30 years, as the overall GDP has almost doubled because of increases in productivity, the average worker has seen little if any improvement in his or her standard of living. In the early 1990s, average wages began to inch up, but most of the gain was given back in the 2001 recession and has not recovered since. The rate of poverty today is roughly the same as it was in 1975 and the poorest 20 percent of the population have actually seen a small decline in their incomes. All of this is even more extreme in Connecticut.

Meanwhile, the upper 20 percent have seen their incomes double, and most of this increase is accounted by those at the very top of the scale. In the U.S. in 1975, the top 1 percent of the population owned approximately 20 percent of the nation's wealth, which was just a bit less than the total wealth owned by the bottom 80 percent of the population. By the late 1990s, the top 1 percent owned almost 40 percent of the wealth, which was more than two and a half times the total wealth of the bottom 80 percent. The bursting of the stock bubble in 2001 resulted in a small decline in wealth inequality, but wealth and income inequality subsequently continued to rise at least up until the recent crisis.[i] To modify the clichés, over the last 30 years, the rising tide lifted the large boats, but the smaller ones got swamped as they were still tied to the dock. Wealth may indeed "trickle down," but it has certainly been gushing up.

This trend in the increase in inequality is global, but the U.S. has experienced the change to a greater extent and is now, by a large margin, the most unequal of all developed nations. **No state has seen a more rapid increase in the degree of inequality than Connecticut.**

The Gini coefficient is the most commonly used measure of economic inequality. Gini values range from 0, a hypothetical condition of perfect equality where everyone made the same, to 1, a condition of perfect inequality, where all income went to a single person.

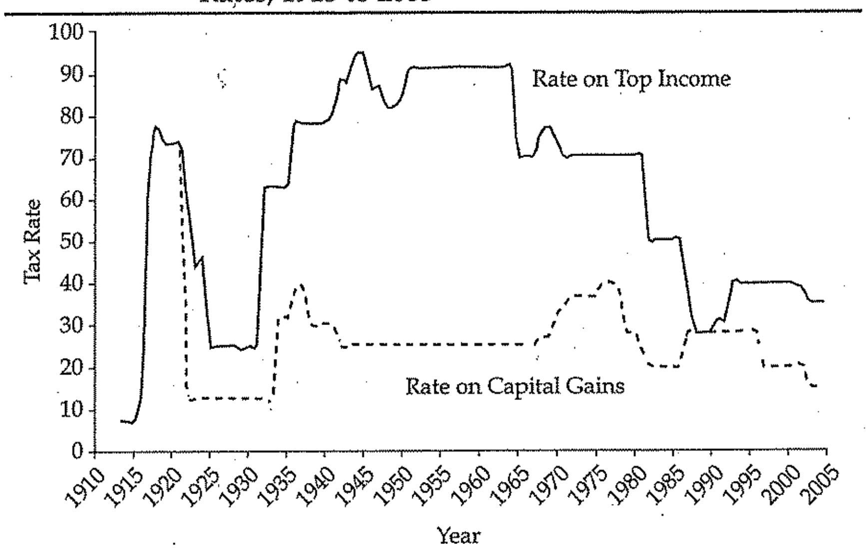
In 1969, Connecticut was 36th among the 50 states in terms of the degree of inequality and well below the national average. **It is now second, and at least up until the present crisis, it was rapidly closing in on New York. Certainly no other state has experienced as a large a growth in the degree of inequality as Connecticut.** North Dakota is included in the figure below because it experienced the smallest change in the degree of inequality over this same period. [ii]



Things, of course, do not have to be this way. Through the 1950s and 1960s, the size of the middle-income group expanded, the poverty rate in the U.S. had been cut in half, and while the rich did get richer, the rate of growth in family income for the upper 20 percent of the population was less than the rate for each of the other four quintiles.[iii] This was also a period of much higher rates of growth in overall GDP than has been seen in recent years.

Although much separates the post-World War II era from the last three decades, changes in tax rates are perhaps the most significant. The figure below presents the top federal tax rate.[iv]

Top Marginal Tax Rates and Capital Gains Tax Rates, 1913 to 2005



Many today argue that one ought not raise taxes in a recession, but the figure illustrates, that is exactly what Roosevelt did on those at the top of the income scale. By the mid-1930s, the top rate had risen to 80 percent and was pushed over 90 percent in World War II. It remained at 90 until it was lowered to 70 percent in the early 1960s, where it remained until Reagan lowered it to 28 percent.

This lowering of tax rates was coupled with the articulation of "supply-side" economics and the "new federalism" that shifted responsibilities for much of the economic safety net to the states. These large-scale changes, perhaps more than anything else, account for the dramatic accumulation of massive fortunes in the new Gilded Age.

In sum, the lesson of 1929 is not different than the one we are learning now again: **a great concentration of wealth and income leads to a massive financial crisis.** What we simply cannot afford is to have such a large share of the value produced by the hard-working people of this state and this nation being accumulated by so few. It is the mega-salaries of those making millions, tens of millions, and hundreds of millions a year that we simply cannot afford. One hedge fund manager in 2007 made over $3 billion, more than what I, as a reasonably successful person could make in a 1000 lifetimes.

Part of the budgetary problems that you are now faced with is a direct result of the fact that the well-off already contribute such a large share of the total income revenues collected by the state. Raising the rate of taxation for upper-income individuals will arguably make tax collections even more volatile, but this too is one of the pernicious effects of the scale of inequality.

In recent years, Connecticut Voices for Children has provided important analyses that demonstrate that the overall tax burden for the well-off is considerably lower than other income groups because most of their income is not expended in purchases that are subject to a sales tax and because they live in wealthier communities with lower mil rates and because a smaller portion of their income goes to property expenses. I ask that you also consider these inequities as you seek to balance the state budget.

In weighing the needs of those making $20,000 a year against those making $20,000 a week, I am not asking you to wage a class war, but rather to prevent one.

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[i] Eric Wolff (2004) Changes in Household Wealth in the 1980s and 1990s in the U.S. Working Paper No. 7, The Levy Economics Institute and New York University.

[ii] The Gini coefficient data were derived by James K. Galbraith and Travis Hale based on U.S. Census data. See their 2006 paper "State Income Inequality and Presidential Election Turnout and Outcomes." The University of Texas Inequality Project, Lyndon B. Johnson School of Public Affairs, The University of Texas at Austin, UTIP Working Paper 33.

[iii] Mishel, L. Bernstein, J. and Allegretto, S. (2007) The *State of Working America, 2006-2007.* Cornell University Press.

[iv] The figure is derived from U.S. census data 2006.