

# How much can we tax the wealthy to finance long-run social and physical infrastructure needs?

Karl Polzer, [Center on Capital & Social Equity](#)

A government, already paying interest on more than its people produce each year (hint: \$22 trillion), now proposes to tax its wealthiest citizens in the vicinity of \$3 trillion more to finance a growing list of social and physical infrastructure needs. Like families paying off mortgages, indebted governments should know that each major purchase narrows its ability to raise capital for future needs.

The following questions come to mind:

- Are this country's most important social and physical needs all being considered as it further limits its spending options?
- To what degree can the wealthy be taxed to cover what is needed?
- How to define a wealthy family: \$400,000 in annual income? \$300,000? \$15 million in net assets? \$10 million?

Discussions over these questions may ruin many lunches on and around Capitol Hill.

On March 30, the [Washington Post](#)<sup>1</sup> provided a preview of what might be in the package and how it might be financed. The list may include building roads and bridges, extending the one-year expansion of child tax credits, job training, and possibly cheaper two-year college and investment in clean energy technology. "The White House is studying a range of tax increases on wealthy investors," the Post reported. "...the increases would be the largest in decades." The next day, the [Post](#)<sup>2</sup> reported that the list had grown to include home care for the elderly and more physical infrastructure, and might come in two installments. The article

mentioned that White House officials were looking to spend more than \$4 trillion and still considering tax increases of up to \$3 trillion.

So, what do we need and how can the wealthy be tapped to pay for it?

### **Where's Social Security?**

Noticeably absent from the Administration's plan is arguably the keystone of the country's social architecture – Social Security – along with the \$16.8 trillion in present value dollars needed to maintain its long-term solvency. This omission will become more apparent in a few weeks when the Social Security Trustees publish their annual report on its inadequate finances. About the same time, battle lines will be forming in Congress over the infrastructure proposals.

Last April, the [trustees](#)<sup>3</sup> repeated a warning that Social Security could continue to pay scheduled retirement and survivors benefits only until 2034. That's when the program's trust fund will be depleted. Currently legislated tax income will be sufficient to pay only 76% of scheduled benefits – meaning a 24% drop in income for many retirees. The 2021 report will likely move up the trust fund exhaustion date a year or two, reflecting the dip in economic activity and tax revenue caused by the Covid pandemic.

Shoring up Social Security's finances will require new taxes or benefit cuts on the order of \$250 billion a year. The program's [shortfall](#)<sup>4</sup> amounts to about 1% of GDP over the next 75 years and 1.4% of GDP in the last year. Over that period, the Social Security's Old-Age, Survivors, and Disability Insurance (OASDI) program needs about 22% more revenue, or to cover 18% less in benefits, or some combination. OASDI income was projected at \$1.15 trillion for 2021 (before the impact of the pandemic).<sup>5</sup>

I have made [the case](#)<sup>6</sup> that the wealthy and upper-echelon professionals could foot this bill by eliminating the [FICA](#) tax cap on wages and the increasing capital gains tax. [Higher estate taxes](#)<sup>7</sup> could help as well.

Low-wage workers, who now make up almost half the workforce, don't have money to spare. They have shorter average life spans,<sup>8</sup> leaving them less likely to collect retirement benefits than higher-income workers. Another reason to target

the wealthy is that the growth of U.S. labor income – the base of Social Security’s financing – has lagged that of capital income. Wealthy people in this country own the lion’s share of capital.

### Social/Physical Infrastructure

It’s surely occurred to some legislators that options to tax the wealthy need to be kept until we decide to deal with Social Security. Perhaps that’s why Democrats have been talking about reversing President Trump’s tax cuts for business owners and high earners to pay for the infrastructure bill.

Table 1

## Menu for Taxing the Wealthiest To Finance Social and Physical Infrastructure Needs

	Annual Tax Bill*	Revenue Source	Benefits
<b>Infrastructure (bridges, roads, cheaper college, job training, keep child tax credits...)</b>	\$300 Billion	Raise corporate tax, energy taxes (with tax credit for low-income commuters).  Tax on college endowments over a certain amount. Higher top income tax rates.  Reduce cost of child subsidies by targeting to need. Raise top income tax rate. <a href="#">Increase IRS audits of top 20%<sup>9</sup></a>	Public good. We need more kids, future taxpayers, jobs. Many people can’t pay bills, buy things.  Fairer access to higher-paying jobs and economic opportunity. More job skills, economic growth. Pro-family. Helps low-income. Need more workers to pay future taxes.
<b>Finance Social Security</b>	\$250B each year to cover \$16.8 Trillion shortfall	<a href="#">Get rid of payroll tax cap.</a> <a href="#">New capital gains surtax.</a> <a href="#">Higher estate tax.<sup>10</sup></a>	U.S. premier social insurance program needs financing to prevent sudden drop in benefits.
<b>\$500 - \$1K contribution to retirement, emergency fund for each worker</b>	\$0 - \$100B	Make current tax breaks for retirement savings progressive. Small increase in <a href="#">tax on stock sales.<sup>11</sup></a> Anti-trust fines/settlements.	Every worker can own working capital and save for emergencies. Universal system/financial inclusion.

<b>Debt service</b>	\$350B - \$1T	National wealth tax based on value on high-priced homes/vehicles &/or estimates of total wealth > \$15 million. Process for appealing IRS assessments.	The higher interest rates, the more need for tax revenue to cover debt.
<b>Debt reduction</b>	\$0 - \$500B	More of above.	ditto
<b>Emergency reserve (e.g., pandemics, wars, sea level rise)</b>	???	Maintain ability to raise taxes on middle class as emergencies and new needs arise.	Option value: provides more freedom to act in the future. Helps middle class maintain demand to drive economic growth. Helps country achieve strategic, economic goals.
<b>'WarpSpeed' effort to develop very energy efficient vehicles affordable for low-income workers</b>	\$100B - \$300B	Surtax on high-priced, inefficient new vehicles. Energy taxes.	Energy taxes are regressive. Higher-income have capital to switch to new technology – low-income need affordable transportation, not more taxes. Controlling climate change won't happen without affordable alternatives.
<b>Health coverage expansion with goal of universal coverage</b>	???	Cap/reduce hospital, drug and doctor's salaries and fees. Trim tax exclusion for employee health benefits. Tax wealth > \$15 million.	Greater equity and efficiency. Universal coverage and cost control are the goals but can't be done by taxing wealthiest alone.
<b>Extra credit 😊: Earmarks for spending on low-income citizens</b>	\$50B - \$100B	Billionaire surtax tax (possibly adjusted yearly as form of profit sharing).	Experiment in federalism to help tailor spending to state needs, build support, give lobbyists something to do, and keep journalists busy.

\* ballpark estimates - Center on Capital & Social Equity.

---

Raising the top income tax rates is straightforward. However, [mainstream economists](#)<sup>12</sup> including those at CBO acknowledge that pushing up corporate tax rates could have a depressing effect on wages and jobs. According to Michael Strain of the American Enterprise Institute: "Raising the corporate levy would hurt ordinary workers, not just people earning \$400,000-plus." Then again, higher taxes on capital might counterbalance the corporate urge to focus on labor costs to make up for lost earnings and profit resulting from higher taxes.

As of this writing, the annualized cost of the Administration's proposal on physical and social infrastructure appears to be about \$300 billion – a sum comparable to what may be needed each year to deal with Social Security and the nation's growing long-run debt. Some of the of the infrastructure tab could be covered by staffing the IRS sufficiently to reduce [tax evasion](#)<sup>13</sup> by the wealthiest. But the amount of revenue that can be collected is limited by their ability to hide income and assets and shift money to tax havens.

Cheaper two-year college and job training programs might be part of the package. Blanket forgiveness of all university debt should not be. Most of the benefit would go to people training for higher paying professions. College tuition could be made affordable for the working class and financed by expanding the tax on college endowments and higher top income tax rates.

### **Rising National Debt**

Proponents may claim a burst of spending will pay for itself by growing the economy. That's true to an extent with a couple of cautions. For one, policymakers need to make sure the tax system applies to the parts of the economy that might grow and those who benefit the most. Also, a growth surge at some point probably will ignite inflation and could lead to more conventional interest rates.

Historically low interest rates are allowing the government to service this year's \$22-trillion national debt with about \$378 billion - a sum equal to almost 25% of last year's federal personal income tax revenue. Debt service costs could multiply with the return of inflation and higher interest rates – a possibility that underscores the argument to begin paying down the debt once the economy recovers.

Taming public debt at this scale requires a combination of remedies. Part of the job can be done by tapping into savings of the wealthy who have benefitted from past economic policies favoring capital over labor. One source of revenue could be a national wealth tax based on the assessed value on high-priced homes/vehicles applying to total wealth greater than \$15 million. There are practical challenges. The richest can hide assets in several ways. The IRS could be empowered to use available data to estimate total net assets to apply a wealth

tax with the onus on the wealthiest taxpayers to appeal assessments with documentation.

## **Climate Change**

The Democratic infrastructure plan no doubt will come wrapped in language about the crisis of climate change. It will be interesting to see whether, looking back in history at the end of the century, what got through Congress in 2021 prevented even an inch of sea level rise. There's a greater chance that the legislation will further impoverish low-wage workers.

Carbon taxes high enough to change behavior applied by any one country are unlikely to reduce world atmospheric carbon levels on their own. Try getting the developing world to increase the cost of production and getting people to work to satisfy wealthy countries' palates for environmental quality. There will always be defections from carbon tax agreements. At the extreme, Putin and his successors may figure that a warmer climate is good all things considered. A lot more of Siberia could be habitable and farmed with new ports on the Arctic Coast. (Who knows? Heirs of the tsars might try to increase carbon levels faster by building bonfires of old tires and lowering carbon taxes.)

Analysts on the far left understand that the financial impact of carbon taxes falls mainly on the poorest people, who don't have the capital or credit to avoid higher fuel taxes by buying newer, cleaner technology. Many low-income people will be stuck driving clunkers to two jobs while professionals increasingly can work from home.

The key to reducing carbon pollution is developing alternative technology to get low-wage workers to work at prices they can afford. A "warp speed" investment to develop cleaner transportation and electricity would do more to moderate climate change than negative incentives. Higher gas taxes to change behavior are fine so long as workers have alternatives.

## **Emergency Reserves**

The sudden, unexpected damage resulting from the Covid-19 pandemic does not seem to have taught many policymakers that similar unexpected events might happen again. There is a natural yearning for “things to return to normal.”

A strong country needs to preserve some financial capacity to cover the costs of pandemics, wars, and natural disasters. Expecting the unexpected is a good reason to leave the middle class, and even the wealthiest, some slack to be taxed in the future. And it’s another reason to manage the debt.

### **Universal Retirement Saving System**

Compared with other costs, [expanding the country’s retirement savings system](#)<sup>14</sup> to include all workers is dirt cheap. Every worker in the nominally “capitalist” country could own working capital and save for emergencies for what amounts to “budget dust” if we set up a national retirement saving system designed to include low-income people. Investment in diversified funds would allow all workers to benefit directly from economic growth while taking reasonable risk.

About \$50 to \$100 billion would be enough for the government to allot each worker in the bottom 50% of the income distribution enough to significantly increase retirement income and include a compartment for emergency expenses. Much of the cost could be covered by making [current tax breaks](#)<sup>15</sup> for employee retirement savings more progressive or with a small increase in the [tax on financial transactions](#)<sup>16</sup> currently levied to cover the cost of government supervision.

Revenue from increased anti-trust enforcement could be thrown in the pot as well. Monopoly prices hurt consumers of all incomes, but monopoly profits go only to people with means to own stock. A universal retirement savings system with modest government contributions would allow low-wage workers who need to buy smart phones to share in tech monopoly profits.

### **Working toward Universal Health Care Coverage**

The U.S. health system is grossly inefficient and unfair. The country should expand coverage for low-income people with universal coverage the goal. Costs could be reduced by capping or lowering hospital, drug, and physician salaries,

fees, and prices. This will be politically difficult, seemingly impossible, but eventually necessary. If health care costs continue rising toward 100% of GDP, at some point people will have nothing to eat and nowhere to live (unless perhaps the country can print an infinite amount of currency or convince other countries to continue buying its debt).

Health care has become so costly that universal coverage cannot be financed by the wealthy alone or even the professional class. Higher tax rates at the top and a wealth tax could play a part. Eventually, the middle class will have to give up perks that provide incentives to bloat health care costs -- like the blanket [exclusion of employee benefits from taxation](#).<sup>17</sup> Everyone in the country will have to contribute in some way.

### **Extra Credit: Earmarks To Help Low-income Citizens**

Pressure is building in the Senate to bring back the practice of earmarking funds for projects that might please local constituents. This could be an opportunity to help lower-income and marginalized people with contributions from the wealthiest.

Congress each year could levy a surtax tax on billionaire wealth and distribute it proportionally by state population. Such an experiment in federalism could help lawmakers tailor spending to local needs, build support for having the rich pay their fair share, give lobbyists more to do, and keep journalists and the courts busy. After lawyers get involved and start arguing about the Constitution, it may be legally impossible to call this a wealth tax. It could be re-named "profit sharing." But when writing about how a democratic republic can raise a lot of money from its most powerful and well-represented citizens, it's probably not appropriate, or politically correct, to end on a whimsical note.

One more thing. Many wealthy and high-income people do not trust the government to decide how to spend what they think is their money. History indicates they will fight higher taxes tooth and nail.



---

<sup>1</sup> “White House dramatically increased tax proposal as it sought to address tensions over next big spending plan,” Jeff Stein, Washington Post, March 30, 2021. [White House increased tax proposal as it works to resolve tensions over big spending plan - The Washington Post](#)

<sup>2</sup> “White House unveils \$2 trillion infrastructure and climate plan, setting up giant battle over size and cost of government: Ahead of speech in Pittsburgh, Biden administration releases sprawling effort to revamp America’s transit, broadband, housing and more,” Jeff Stein, Juliet Eilperin and Michael Laris, Washington Post, March 31, 2021. [White House unveils \\$2 trillion infrastructure and climate plan that seeks to remake U.S. economy - The Washington Post](#)

<sup>3</sup> Status of the Social Security and Medicare Programs: A Summary of the 2020 Annual Reports, Office of the Chief Actuary. [Trustees Report Summary \(ssa.gov\)](#)

<sup>4</sup> “What the 2020 Trustees’ Report Shows About Social Security,” Kathleen Romig, Center on Budget & Policy Priorities, May 13, 2020. [What the 2020 Trustees’ Report Shows About Social Security | Center on Budget and Policy Priorities \(cbpp.org\)](#)

<sup>5</sup> Personal communication with the Office of the Chief Actuary.

<sup>6</sup> “There’s a way to save Social Security, but it involves taxing the rich,” Karl Polzer, Washington Examiner, Aug. 2, 2018. [There’s a way to save Social Security, but it involves taxing the rich \(washingtonexaminer.com\)](#)

<sup>7</sup> “Growing inequality has shrunk Social Security’s revenue. Revitalizing its tax base could help restore solvency without cutting benefits.” Karl Polzer, Center on Capital & Social Equity, July 2018. [Soc Security shrinking tax base 4.pdf \(inequalityink.org\)](#)

<sup>8</sup> “A Widening Gap in Life Expectancy Makes Raising Social Security’s Retirement Age a Particularly Bad Deal for Low-Wage Earners,” Karl Polzer, Society of Actuaries, August 2020. [Social Insurance and Public Finance Section, Issue 23, August 2020, In The Public Interest \(inequalityink.org\)](#)

<sup>9</sup> “Tax Evasion at the Top of the Income Distribution: Theory and Evidence,” Washington Center for Equitable Growth, March 22, 2021. [Tax Evasion at the Top of the Income Distribution: Theory and Evidence - Equitable Growth](#)

<sup>10</sup> “Growing inequality has shrunk Social Security’s revenue...” above. [Soc Security shrinking tax base 4.pdf \(inequalityink.org\)](#)

<sup>11</sup> Financial transaction tax, Wikipedia. [Financial transaction tax - Wikipedia](#)

<sup>12</sup> “Would Biden’s tax hike really spare the middle class? Nope,” Michael Strain, American Enterprise Institute, March 17, 2021. [Would Biden’s tax hike really spare the middle class? Nope | American Enterprise Institute - AEI](#)

<sup>13</sup> “Tax Evasion at the Top of the Income Distribution...” above. [Tax Evasion at the Top of the Income Distribution: Theory and Evidence - Equitable Growth](#)

<sup>14</sup> “Including all workers in our retirement savings system requires two things: a universal tax credit and a secure place to invest it. Congress should be working on both.” Karl Polzer, Center on Capital & Social Equity, May 2018. [universal retirement savings system 5-27-18.pdf \(inequalityink.org\)](#)

<sup>15</sup> “Robin Hood Tax Reform: Modest Changes in Health, Retirement Tax Breaks Could Produce Major Gains in US Health Access, Financial Security – at Little or No Added Government Cost,” Karl Polzer, Center on Capital & Social

---

Equity, May 2017.

[https://www.inequalityink.org/resources/How%20Narrowing%20Health%20and%20Retirement%20Savings%20Tax%20Exclusions%20Could%20Produce%20Major%20Improvements%20\(2\).pdf](https://www.inequalityink.org/resources/How%20Narrowing%20Health%20and%20Retirement%20Savings%20Tax%20Exclusions%20Could%20Produce%20Major%20Improvements%20(2).pdf)

<sup>16</sup> [Financial transaction tax - Wikipedia](#)

<sup>17</sup> “The Cadillac Tax Do-Over Challenge,” Karl Polzer, Health Affairs Blog, Aug. 20, 2019. [The Cadillac Tax Do-Over Challenge | Health Affairs](#)