21CAR Out-of-box Ideas

Combatting “Robber Baron Salary Capture”

By Maurice Amirault

Relative valuations of different professions in America are significantly divorced from the real value of those functions to society – think of the hedge fund manager who underperforms the S&P500 but still makes millions while a talented grade school teacher has to buy school supplies out of a salary not much above poverty level.

This is not the considered judgment of a rational market. It is the result of hundreds of public policy decisions, some of them misguided, others mischievous. I want to propose how we might address this particular symptom, with a tax plan that everyone (but the oligarchs) will love.

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America needs corporate and income tax surcharges in cases of “Robber Baron Salary Capture” – i.e., where the highest paid employee of a company is compensated at very large multiples of the lowest paid employee. Here’s how it would work.

To make the calculations simple, I’ve assumed a lowest-paid company worker makes $15 an hour ($30,000 salary for full time work), but obviously many American workers are paid less than that. Surcharges would kick in when the highest-paid company employee makes more than 100 times that amount, or 3$ million per year.

(Preemptive rebuttal to “war on the middle class” complaints: it is not targeted at those who happen to be millionaires in asset terms, only those earning **more than three million dollars per year**. At that level of income, no one is worrying whether they can pay their kids’ college bills, they are wondering whether a third mansion and a sixth luxury car would be more trouble than they’re worth.)

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The proposed surcharges would target both the company (assessed on gross annual revenue) and the highest-compensated employee (on adjusted gross income). Rates would ascend a geometric scale, providing proportionately greater penalties and disincentives as the “high/low” multiple expands.

To keep it administratively simple, the surcharge would would be assessed on these standard (already reported) revenue/income figures, with no deductions, exemptions, exceptions, or qualifications. To preempt one tax dodge, it would apply to contractors as well as regular employees. To preempt another, the IRS must guard against efforts to demonetize and exclude elements of executive compensation (already a problem, which I may address in some future paper).

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The charts and graphs at bottom provide more specifics, but for now, let me list the arguments in favor. Interestingly, many of the goals of the program are consistent with center-right political rhetoric (if not practice).

> **Moral/Religious**: The super-rich have seized an ever-greater share of America's economic output, expanding misery at the bottom of the socio-economic pyramid. They are not acting as "their brothers' keepers." This starts the process of reversing that disequilibrium.
> **Fiscal responsibility**: The surcharges will raise revenue and bring down government debt in a fashion that imperils no one and discomforts only the most comforted.
> **Anti-regulation**: The program would be easy to administer, based on inconsequentially small additional reporting requirements from companies (only two numbers, and only by companies whose highest-paid employee receives more than $3 million in compensation per year).
> **Incentive-based altruism**: It provides incentives to improve conditions for lowest-paid employees (to CEOs, wanting to avoid cuts to their own compensation; to shareholders, because high/low pay disparity will now nibble at returns on investment).
> **Small Government Conservatism**: Huge companies are proficient in foisting the social costs of poverty onto the federal and state governments. To run government social insurance programs (Medicaid, SNAP, etc.) in a sustainable way, we must reduce demand – that is, make sure working Americans can get by financially without government help.
> **Nationalism**: It is consistent with an underlying belief that nations are loyalty-based communities in which first allegiances are owed to one another.
> **Capitalism**: I'm no Nostradamus, but I have a hard time imagining a continuation of this trend of predatory Capitalism that doesn't end with a different economic system (and a pyramid of Capitalist skulls – at least metaphorically. I'm a Marxist economist trying to save Capitalism. Yes, Robber Barons, you can thank me later.

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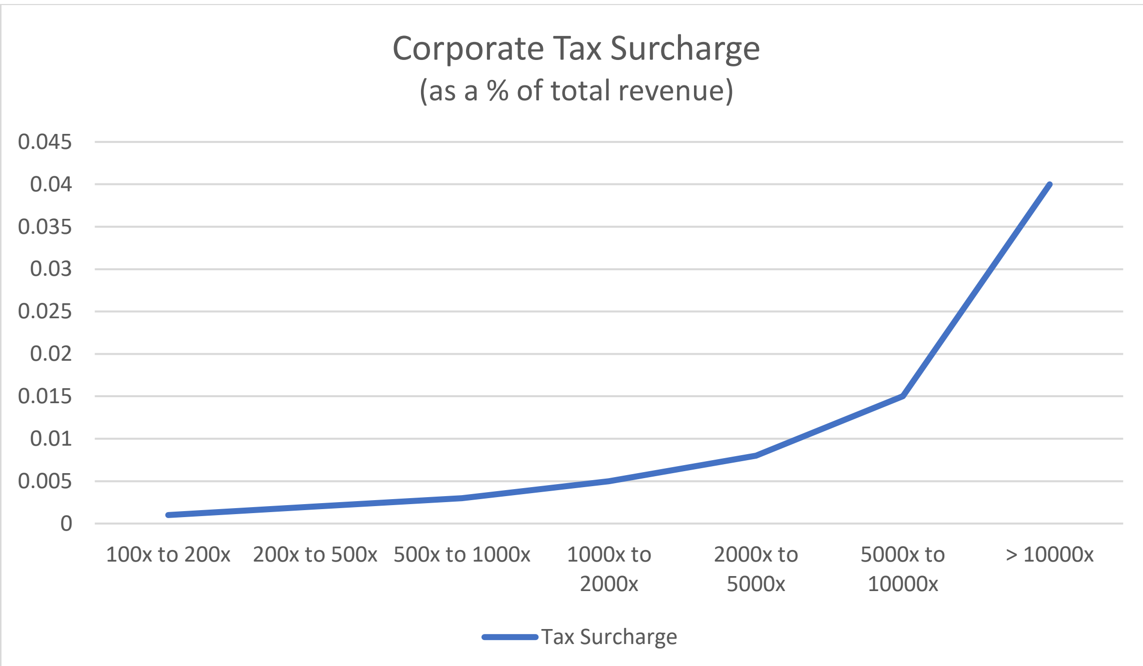
Here are the nerdy specifics:

Corporate Tax Surcharge would be assessed against total revenue according to the following rate schedule:

- .1% total revenue in cases where multiple between 100-200

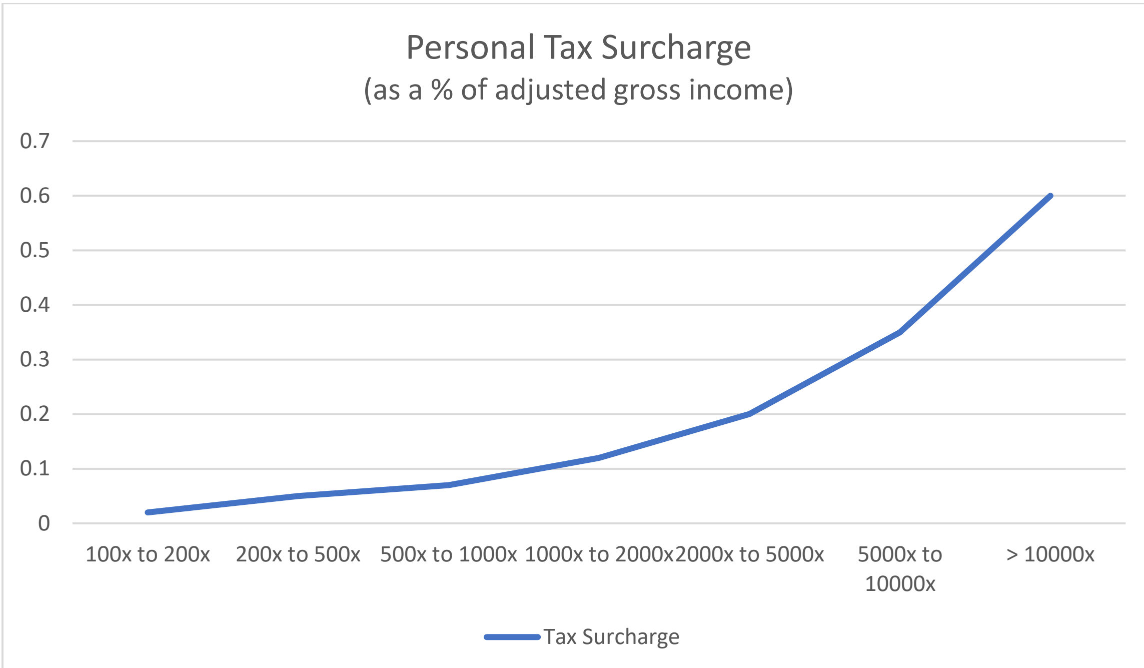
- (e.g., where lowest-compensated employee earns $30,000 per year and highest compensated employee earns between $3-6 million per year)

- .2% total revenue in cases where multiple between 200-500
- .3% total revenue in cases where multiple between 500-1000
- .5% total revenue in cases where multiple between 1000-2000
- .8% total revenue in cases where multiple between 2000-5000
- 1.5% total revenue in cases where multiple between 5000-10000
- 4% total revenue in cases where multiple beyond 10000
    - (i.e., where highest compensated employee earns more than $300,000,000 per year)



Personal Tax Surcharge would be assessed against total compensation according to the following rate schedule:

- 2% adjusted gross income in cases where multiple between 100-200
    - (e.g., where lowest-compensated employee earns $30,000 per year and highest compensated employee earns between $3-6 million per year)
- 5% adjusted gross income in cases where multiple between 200-500
- 7% adjusted gross income in cases where multiple between 500-1000
- 12% adjusted gross income in cases where multiple between 1000-2000
- 20% adjusted gross income in cases where multiple between 2000-5000
- 35% adjusted gross income in cases where multiple between 5000-10000
- 60% adjusted gross income in cases where multiple beyond 10000
    - (i.e., where highest compensated employee earns more than $300,000,000 per year)


Personal Tax Surcharge
(as a % of adjusted gross income)
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
100x to 200x
200x to 500x
500x to 1000x
1000x to 2000x
2000x to 5000x
5000x to 10000x
> 10000x
Tax Surcharge