Income gap widens as executives prosper

Rising compensation at the top is at root of increasing inequality

BY PETER WOHLERSLEY

It was the 1970s, and the chief executive of a leading U.S. dairy company, Kenneth J. Douglas, lived the good life. He earned the equivalent of about $1 million today. He and his family moved from a three-bedroom home to a four-bedroom home, about a half-mile away, in River Forest, Ill., an upscale Chicago suburb. He joined a country club. The company gave him a Cadillac. The money was good enough, in fact, that he didn’t need to turn down raises. He said making too much was bad for morale.

Forty years later, the trappings at the top of Dean Foods, as at most big U.S. companies, are even more lavish. The current chief executive, Gregg L. Engles, earns 10 times as much in compensation as Douglas did, or $16 million in a typical year. He owns a 65 million home in an elite suburb of Dallas and $4 million near Valo, Conn., an area he frequently visits. He belongs to as many as four golf clubs at a time — two in Texas and two in Colorado. While Douglas’s office sat on the second floor of a milk distribution center, Engles’s stylish new headquarters occupy the top nine floors of a 48-story Dallas office tower. When Engles leaves town, he takes the company’s $10 million Challenger 604 jet, which is largely dedicated to his needs, both business and personal.

The evolution of executive granule — from very comfortable to jet-setting — reflects one of the primary reasons that the gap between those with the highest incomes and everyone else is widening.

For years, statistics have depicted growing income disparity in the United States, and it has reached levels not seen since the Great Depression. In 2008, the last year for which data are available, for example, the top .1 percent of earners took in more than 10 percent of the personal income in the United States, including capital gains, and the top 1 percent took in more than 20 percent. But economists had little idea who these people were. How many were Wall Street, or sports stars? Entrepreneurs? Economists could only speculate, and debates over what is fair stilled.

Now a mounting body of economic research indicates that the rise in pay for company executives has gone unnoticed or discounted, even by those who believe in the theory of market capitalism. Economists in this view, the rising compensation at the top is a critical factor in the widening income gap.

The largest single chunk of the highest-income earners. It turns out, are executives and other managers in finance, according to a landmark analysis of tax returns by economists Jon Bakija, Adam Cole and Bradley T. Heim. These are not just executives from Wall Street, either, but from companies in every relatively mundane fields such as the milk business. The top .1 percent of earners make about $17 million or more, more than the capital gains. Of those, 61 percent were executives, managers and supervisors at non-financial companies, according to the analysis, with nearly half of them deriving most of their income from their ownership in privately held firms. An additional 11 percent were at financial managers or financial professionals at any sort of fund.

In all, nearly 60 percent fall into one of those two categories. Other recent research, moreover, indicates that executive compensation at the nation’s largest firms has roughly quadrupled in real terms since the 1970s, even as pay for the top 1 percent of America has stalled.

This trend held at Dean Foods. Over the period from the 1970s until today, while pay for Dean Foods chief executives was rising 10 times over, wages for the unionized workers actually declined slightly. The biggest gains went to the people who process, pasteurize and package the milk that the company’s dairies declined by 9 percent in real terms, according to union contract records. It is now about $22 billion.

Do people bitch because the executive makes so much? Yeah, but there’s nothing you can do about it,” said Bob Good, 61, a former senior vice president who has been working at the company for 20 years. Those who have the idea that the only people that matter to the company are those at the top.

Through a spokesperson, Engles declined to be interviewed. Company officials threatened to call the police if the writer was reporting. The writer was interviewing workers outside one of the dairies.

Defenders of executive pay have argued that today’s chief executives are worth more because, among other things, companies are larger and more complex.

But critics question why so much of the growth in income should go to the wealthiest 1 percent. Douglas, the Dean Foods chief from the 70s, died in 2007. But his son, Andrew, remains at financial managers or financial professionals at any sort of fund.

In his father’s will,Engles witnessed a part in the marital estate. If his father had seen how much executives were making today, Andrew Douglas said, he’d be “up in his grave. My dad just believed that after a while, what else would you need the money for?”

Executive Compensation 2010

How do the region’s chief executives stack up when it comes to their pay? For an answer, Capital Compensation Equifax, an executive compensation research firm, to analyze the annual pay of CEOs of 100 of the area’s largest public companies.

Equifax examined the compensation totals for the chief executives serving as the chief of the companies’ most recent completed fiscal year ended on or after March 31, 2010, which means in some cases an executive may have served more than one. So consider this listing a snapshot in time.

摇头 for a PDF of complete compensation breakdowns – | Click here to see data methodology

Click on table headers to sort alphabetically by name or numerically by dollar amount, or use the search box to filter by keyword.

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The highest paid execs in the Washington area

For a list of the most highly compensated company executives in the Washington area, go online to worldsbest/breakaway-wealth or pick up a copy of Monday’s Capital Business.

The Washington Post

SUNDAY, JUNE 19, 2011
professor at Northwestern University, who is writing a book on the subject. "There are concerns arise when it seems that extreme incomes for some are restricting opportunities for everyone else."

Whatever people think of it, the gap between the very highest earners and everyone else has been widening significantly.

Income inequality has been on the rise for decades in several nations, including Britain, China and India, but it has been most pronounced in the United States, economists say. In 1975, for example, the top 0.1 percent of earners garnered about 2.5 percent of the nation's income, including capital gains, according to data collected by University of California economist Emmanuel Saez. By 2008, that share had equaled and stood at 10.4 percent.

The phenomenon is even more pronounced at even higher levels of income. The share of the income commanded by the top 0.01 percent rose from 0.85 percent to 5.03 percent over that period. For the 15,000 families in that group, average income now stands at $27 million.

In world rankings of income inequality, the United States now falls among some of the world's less-developed economies.

According to the CIA's World Factbook, which uses the so-called "Gini coefficient," a common economic indicator of inequality, the United States ranks as far more unequal than the European Union and Britain. The United States is in the company of developing countries -- just behind Cameroon and Ivory Coast and just ahead of Uganda and Jamaica.

Democratic leaders, whose constituents have expressed more alarm over the divide, have used the phenomenon to justify (Not) spreading the wealth

The income gap between the wealthy and the rest of the country has grown along with dramatic increases in CEO pay.

Growing share of income for the rich

Inequality in the United States has grown steadily since the 1970s, following a flat period after World War II. By 2008, the wealthiest 10 percent of earners took in almost the same amount of income as the rest of the country combined.

In 2005, the top 0.1 percent of earners in the U.S. made upwards of about $1.7 million, including capital gains. Forty-one percent of these roughly 140,000 families had a dropshipping, who was an executive, a supervisor or a manager.

Acceptable greed

Defenders of executive pay argue, among other things, that the rising compensation is deserved because firms are larger today. Moreover, this group says, more packages today are based on stock and options, which pay more when the chief executive is successful.

Critics, on other hand, argue that executive salaries have jumped because corporate boards were simply too generous, or more broadly, because greed became more socially acceptable.

Again, in settling these arguments, economists were h hampered by a lack of data, particularly any that might give some historical perspective.

It wasn't until economists Card and Krizmanic from MIT's Sloan School of Management and Re- vens of the Federal Reserve collected and analyzed data dating from 1958 -- an exhaustive task because of the lack of computerized records going back that far -- that the long-term trends became clear.

What the research showed is that while executive pay at the largest U.S. companies was relatively flat in the '50s and '60s, it began a rapid ascent sometime in the '70s. As it happens, this was about the same time that income inequality began to widen in the United States, according to the Saez figures.
More important, however, the finding that executive pay was flat in the 1970s and 1980s, when firms were growing, appears to contradict the idea that executive pay should naturally rise when companies grow.

This is a "challenge for the market story," Pyndiak said.

What has happened since the 1970s that has sent executive pay upward?

While no company over this period of time -- from the 1970s to today -- can be considered completely typical, Dean Foods offers a better comparison than most because fundamentally it hasn't changed.

The dairy business is still the root of the company; it was on the Fortune 500 by the late '70s and remains there today. It grew then and more recently through acquisition.

Moreover, both chief executives -- Douglas and Engles -- could boast records of growing the company and profits.

From 1970 to 1979, while Douglas was the chief executive, sales at Dean Foods tripled and profit increased tenfold, to $9.8 million, according to company records. Similarly, from 2000 to 2009, sales at what would be Dean Foods had roughly doubled, and so had profits, to $228 million. (Engles became chief executive after the company he led bought Dean Foods in 2000 and adopted its name.)

Yet there are vast differences in the way the two men were paid, even when you adjust for the effects of inflation.

In the late 1970s -- 1977, 1978 and 1979 -- Douglas made about $1 million annually in today's dollars. The largest part of that was a salary; some came from a long-term incentive based on the stock price that would not mature until he retired.

By contrast, in the late 2000s -- 2007, 2008 and 2009 -- Engles averaged $10.5 million annually, most of it in stock and options awards and other incentive pay, according to proxy statements. After '09, which was a particularly bad year, Engles's compensation dropped to $4 million in 2010. If profit returns, so will his earnings.

The case of Dean Foods appears to bolster the argument that executive compensation moves with company size: Dean Foods' profit in 2009 was roughly 10 times what it was in 1979, adjusted for constant dollars. Engles's compensation has averaged 10 times that of Douglas.

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But some economists have offered an alternative, difficult-to-quantify explanation: that the social norms that once reined in executive pay have disappeared.

This new attitude, according to this view, was reflected in a epigrammatic form by the 1987 movie Wall Street, which made famous the phrase "greed, for lack of a better word, is good." Americans were growing more comfortable with some extremes in pay. Parfors for the stars on Wall Street, in the movies and in pro sports were rising.

But back in the '70s, something was holding executive salaries back.

Harold Geneen, the president of ITT, then one of the nation's largest companies, told Forbes in 1976 that while he might be worth six times as much to the company as he was making, he hadn't sought a raise.

"No one moved up there, and I didn't dare do it alone," he explained.

Over at Dean Foods, Kenneth Douglas was likewise resistant to raising more. Most years, board members at Dean Foods wanted to give Douglas a raise. But more than once, Douglas, a former FBI agent who literally married the girl next door, refused.

"He would object to the pay we gave him sometimes — not because he thought it was too little; he thought it was too much," said Alexander J. Vough, a member of the Dean Foods board at the time and the chair of its compensation committee. "He was afraid it would be bad for morale, him getting a big bump like that.

"He believed the reward went to the shareholders, not to any one man," said John P. Frazee, another former board member.

"Today we get cults of personality around the CEO, but then there was not a cult of personality.

Outside one of the Dean Foods dairies recently, the workers at the plant for the most part only rolled their eyes when asked about Engles's salary. But they spoke admiringly of Douglas.

"People back then thought enough was enough," said Ken Smith, 55, who maintains the machines at the plant.

Some were reluctant to criticize Engles to a reporter. Others defended him.

"You're long of the hill, and you get paid for that," said Ray Kavanaugh, 65, who operates a filler at the dairy. "He's worth it if he keep the company making money!"

The employees said they only occasionally dwell on Engles's riches, anyway. Their primary focus is on making ends meet, they said.

Joe Bopp, 55, said he has a second job taking care of a cemetery during the summer months, mowing the grass and digging graves.

"Twenty-three dollars an hour sounds like a lot of money," he said. "But when you pay $4 a gallon for gas and $3.29 for a gallon of milk, it goes away real fast."

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BREAKAWAY WEALTH

The ‘Lake Wobegon effect’ lifts CEOs’ pay

‘Peer benchmarking’ enriched Amgen chief as firm’s fortunes faded

BY PETER WHORISKEY

THOUSAND OAKS, Calif. — As the board of Amgen convened at the company’s headquarters in March, chief executive Kevin W. Sharer seemed an unlikely candidate for a raise.

Shareholders at the company, one of the nation’s largest biotech firms, had voted 2 percent against their payment in 2010 and 7 percent against the past five years. The company had been forced to close or scale back plants, trimming the workforce from 20,000 to 17,400. And Sharer, a 63-year-old former Navy pilot, was already earning tens of millions — about $15 million in the previous year, plus much more as two corporate jets.

The board decided to give Sharer a raise. It boosted his compensation to $21 million annually, a 37 percent increase, according to the company reports. Why?

The company board agreed to pay Sharer more than most chief executives in the industry — with a compensation “value closer to the 75th percentile of the peer group,” according to a 2010 regulatory filing.

This is how it’s done in corporate America. At Amgen and at the vast majority of large U.S. companies, board members pay their executives at levels equal to or above the median for executives at similar companies.

The idea behind setting executive pay this way, known as “peer benchmarking,” is to keep talented people from leaving. But the practice has long been controversial because, as critics have pointed out, if every company tries to keep up with or exceed the median pay for executives, then executive compensation will spiral upward, regardless of performance. Few if any corporate boards consider their executive team to be below average, so the result has been known as the “Lake Wobegon effect.”

It wasn’t until recently, however, that its pervasiveness and impact on executive pay became clear. Companies have long had the way they set executive pay, but in late 2009, the Securities and Exchange Commission began compelling companies to disclose the specifics of how they set peer groups to determine executive pay.

Since then, observers have found that about 50 percent of major U.S. companies expressly set their executive pay targets above the median of their peer group. This creates the kind of circumstances that drive pay upward.

Moreover, the jump in pay is because of peer benchmarking is significant. A chief executive’s pay is more influenced by what his or her “peers” earn than by the company’s recent performance for shareholders, according to independent research efforts based on the SEC’s new disclosure requirements.

One was by Michael Foulkrod at the University of Maryland and Jun Yang of Indiana University, and another was led by John Biejaj at Texas Christian University.

“Peer benchmarking has a significant influence on CEO pay,” Biejaj said. “Basically, you can’t have every CEO paid half a million without paying matching upward over time.”

“All the other kids have one”

The gap between what workers and top executives make helps explain why prisoners and convicts in the United States is rising levels un

since the Great Depression. Since the 1970s, median pay for executives at the nation’s largest companies has more than quadrupled, even after adjusting for inflation, according to research. Over the same period, pay for a typical non-supervisory worker has dropped from $47,700 to $37,000, according to Bureau of Labor statistics.

Critical to executive pay levels is peer benchmarking.

Even before the onset of the practice was known, it drew criticism from prominent business figures.

After the Enron, saddle with blue-ribbon committee led by Peter G. Peterson, then chairman of the Federal Reserve, had determined that the company’s compensation policies were not paying executives which critics say contributed to the company’s collapse. In one of his famously plain-spoken letters to investors, he advised investors to dump the company.

Outstanding ‘goodies’ are show

On the CEOs’ show, became an industry-standard practice in 2009, when the SEC took aim at the “salaries of CEOs.

While Sharer was not the only one to benefit from the practice, he was one of the few to receive a massive increase. In a 2009 letter to shareholders, Sharer said his compensation was “dramatically lower than our peers.”

In his new role, Sharer has also benefited from the practice, because his compensation is tied to the performance of his peers. According to the company’s latest proxy statement, Sharer’s compensation is tied to the performance of his peers, and this is reflected in his compensation.

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Amgen acted desperate at a time it did not need to be desper-ate," said analyst Douglas Christopher. "It allowed them to say, 'Look, we have a third product, but at a massive price.'"

There was another bit of turbu-

lence, too. According to the Los

Angeles Times, at about the same
time, Sharer had a romantic rela-
tionship with a married Amgen
vice president. "Senior executives"
tried to persuade him to end the
relationship, but he didn't until
the employee left the company in
2001, according to the newspaper.

The company continued to grow
during Sharer's early tenure,
and more recently, the company has
boosted greater earnings per share.
But by 2006, the growth that once distinguished Amgen had begun to taper off.

In 2008, Forbes magazine
named him among the coun-
try's most overpaid bosses
because the company's returns
dipped 4 percent annually over
six years while he earned an
average of $12.3 million.

The lack of enthusiasm was
more evident among the people
who knew him best about Amgen —
insiders. Companies are required to
report when their officials sell
stock. Since 2005, the ratio of shares
sold to purchases has been 12 to 1,
according to Bloomberg data
reviewed last fall by Christopher.

Under peer benchmarking,
however, even when shareholders
lose, executives can win.
Ratcliff can creep into the
process in several ways. At Amgen, it
began with the choosing of "peers."

Amgen selected 31 companies
in the biotech/pharmaceutical
field, which seems natural.
But most of the com-
panies on the list are far larger than
Amgen. Amgen's revenue in 2010
was $18.5 billion; the median
revenue of its peer companies was
$40 billion, according to Equilar.

The practice of choosing peers
that boost pay is common. Studies
by Faulkender, Bivens and ISS Cor-
porate Services have shown that
when choosing "peers" for pay-set-
ting purposes, companies tend to
choose larger firms or firms with
more highly paid chief executives.
Maybe even more significantly,
however, the Amgen compensation
committee also decided that Shar-
er, despite being at a smaller com-
pany, should earn stock compensa-
tion at the 75th percentile of peers.
This is critical because stock compen-
sation tends to be the larg-
est component of executive pay.

The company has said that stock
compensation serves as a good incentive; the more stock he
owns, the more reason he has to
try to boost the company's results.
Moreover, the company says,
with $21 million in reported stock
compensation, Sharer must reach
an array of goals with the compa-
ny, so much of his pay is "at risk."

But how much is his pay really
doubt? Most of the stock com-
pen
sation Shae
r
er
is
told to receive as a
long-term incentive is contingent
not on the company's financial
performance but simply on whether
Shae
rer
remains at the company, ISS
Proxy Advisory Services has point-
out. Moreover, the reported com-
pen
sation figure of $21 million is based
on the company's projections of
"probable" financial outcomes.

As a result, Sharer has earned
raises while shareholders have
lost money. In 2010, Amgen's
shareholders return was minus 3
percent. In 2009, shareholder re-
turn was minus 6 percent.

In both years, Sharer received
significant pay increases, even
though Amgen's "peer" companies
made gains for shareholders,
according to Equilar.

"He basically did nothing for the
company," Silverman said.
"And he still gets raises."

Sharer has tried to cut costs,
however, pushing out workers at
plants around the country at its
headquarters in Thousand Oaks,
and in West Greenwich, R.I., and
Long-

Vail, Colo. Outside the Longmont plant
recently, where more than 40 work-
ers were laid off in June, a pair of
contract workers said they'd been
hired to replace displaced workers.
"We're cheaper," one explained.
"Honestly, I'm just glad to have a
job."

Former employees were reluct-
tant to talk about Amgen because,
they said, their severance pay
could be affected. But some were
"furious" about what Sharer was earning.

"Obviously" said one woman who
used to work at the Thousand
Oaks facility, "only some people
matter.

Sharer, meanwhile, has done
down
. He owns at least three
homes, according to property rec-
cords: a $2 million home in Los
Angeles, a $4 million spread in Vail,
Colo., and a $5 million place on
Nantucket.

Moreover, the effects of his rais-
es are not limited to Amgen.
In fact, because of peer bench-
marking, raises at one company
have ripple effects across corpo-
rate America. Thirty-seven other
companies name Amgen as a "peer"
including Wal-Mart, Mas-
terCard and Time-Warner, as well
as other drug companies, accord-
ing to Equilar.

Next year, at those companies
that use Amgen as a peer, Sharer's
new compensation package will
be used as a benchmark, propel-
ing executive pay upward.

Friends in high places

As is the case at many companies, the
chief executive at Amgen has personal
and business connections to
members of the board of directors
that is supposed to oversee him and
set his pay.

Four of six members of the board's
compensation committee had ties
to chief executive Kevin W. Sharer before
joining the board.

Two board members, former
Northrop Grumman chairman Ronald
D. Sugar and former Wells Fargo chairman
Lawrence D. Schroeder, owe their
board seats to Sharer, who prepped them for the positions,
according to a company source and
documents. Their seats pay about
$350,000 annually.

Board compensation committee
member Frank C. Herriges, chair of
Transcendents, served with Sharer on a
director of Unicoil for several years.

Sixth board member, compensation
committee member Frederick W. (Rick served at
Merck, the international management consulting firm, when
Sharer also worked at the firm.

A fifth board compensation
committee member, retired Adm.
J. Paul Reason, is, like Sharer, a
graduate of the Naval Academy and is
active in Navy charities. Reason has
been chairman of the board of
directors for the United States Navy
Memorial Foundation. Sharer has
been a member of the board of
directors of the Naval Academy's
Aerostar Association and Foundation.

About the series

Ratcliff is the other part of the
Brookings Wealth series at
washingtonpost.com/business.
The rates on capital gains — which include profits from the sale of stocks, bonds and real estate — should be a key point in negotiations over how to shrink the budget deficit, some lawmakers say.

“This is something that should be on the table,” said Rep. Chris Van Hollen (D-Md.), one of 12 members on the congressional “supercommittee” tasked with reducing the deficit. “There’s no strong economic rationale for the huge gap that exists now between the rate for wages and the rate for capital gains.”

Advocates for a low capital gains rate say it spurs more investment in the U.S. economy, benefiting all Americans. But some tax experts say the evidence for that theory is murky at best. What is clear is that the capital gains tax rate disproportionately benefits the ultra-wealthy.

Most Americans depend on wages and salaries for their income, which is subject to a graduated tax so the big earners pay higher percentages. The capital gains tax turns that idea on its head, capping the rate at 15 percent for long-term investments. As a result, anyone making more than $34,500 a year in wages and salary is taxed at a higher rate than a billionaire is taxed on untold millions in capital gains.

While it’s true that many middle-class Americans own stocks or bonds, they tend to stash them in tax-sheltered retirement accounts, where the capital gains rate does not apply. By contrast, the richest Americans reap huge benefits. Over the past 20 years, more than 80 percent of the capital gains income realized in the United States has gone to 5 percent of the people; about half of all the capital gains have gone to the wealthiest 0.1 percent.

“The way you get rich in this world is not by working hard,” said Marty Sullivan, an economist and a contributing editor to Tax Analysts. “It’s by owning large amounts of assets and having those things appreciated in value.”

Republicans have led the way in pressing for low capital gains tax rates, but they have been able to rely on a significant bloc of Democratic allies to prevent an increase and to protect the preferential treatment of money earned through investments over money earned through labor.

President Obama and leading Democrats want to allow the tax cuts passed under Bush to expire. That would raise the capital gains tax rate from 15 percent to 20 percent. But that would still be lower than the rate under President Ronald Reagan — who raised the tax in 1986.

“Capital gains . . . veers onto theory for Republicans, but it has always been a bipartisan issue,” Bloomfield said.

A poll this spring by the nonprofit Public Religion Research Institute showed that Americans, by a 2-to-1 margin, think the wealthy should pay more taxes than the middle class and the poor.

Billionaire Warren Buffett has become one of the loudest and most frequently cited proponents of the wealthy paying more in taxes.

“The truth is, I have never had it so good in terms of taxes,” Buffett said in an interview with
Charlie Rose. “I am paying the lowest tax rate that I’ve ever paid in my entire life. Now that’s crazy, you don’t know. And if you look at Forbes 400, they are paying a lower rate, counting just capital gains taxes, than the secretary or whomever around their administrative salaries, on average.”

How the wealthiest Americans managed to get Congress to treat money differently from salaries or wages involved a variety of lobbyists, economists and lawmakers. “Capital gains is economics, theology and politics wrapped together,” Bloomfield said.

The Greenspan effect

The theory justifying low capital gains rates has been sold to the political fathers and sons as influential as Alan Greenspan, the former Federal Reserve chairman who was treated as an economic seer on both sides of the aisle.

Greenspan said capital gains taxes made people reluctant to move out of one investment and into other, more-promising ones. In 1977, while still chair of the Federal Reserve of New York, Greenspan said the “major impact” of the capital gains tax, “as far as I can judge, is related to the acumen of entrepreneurial activity and capital formation.”

“The appropriate capital gains tax rate was zero,” he added. Greenspan’s thinking hadn’t been around for decades. The same approach was adopted in 1991 just before a stock market boom, when the U.S. government lowered the capital gains rate for the first time. Over the decades, the rate fluctuated but remained lower than the rate on wage income.

But that moment was brief. In 1990 and 1993, the top tax rates on other forms of income rose to 39.6 percent. The capital gains stayed put, a disappoint- ment to President George H.W. Bush, who wanted even lower capital gains rates. After Bush, two Republicans took control of Congress in 1994, they again pressed for capital gains rate cuts.

Greenspan was then near the peak of his credibility in Washington. In 1993, he promised Clinton that he would lower interest rates if Clinton backed a deal to narrow the budget deficit. Both men de- livered, building an 80 percent approval rating. By 1997, the GOP leaders were turning to Greenspan for eco- nomic cover and inspiration.

“Now I agree with Steve Moore and Alan Greenspan that the correct rate is zero if you want maximum economic growth,” House Speaker Newt Gingrich (R-Ga.) said at the Cato Institute on July 16, 1998. “If you’re really wanting the most wealth created over the next 20 years, you would have a zero rate on capital gains, which is a tax on job creation.”

Other GOP lawmakers formed the Zero Capital Gains Caucus, with 92 House members and 15 senators. The group’s chairman, Rep. David Dreier (R-Calif.), said on his Web site: “Federal Reserve Chairman Alan Greenspan has said we should reduce it. So what do we do?”

The group included many members of the powerful tax-writing House Ways and Means Committee. One was Rep. JamesOtto “Jr.” McKinley (R-La.). He formed the Committee for the Preservation of Capitalism, a pol- itical action committee that he used to give money to candidates favoring lower capital gains rates.

Secretary Treasury Robert Ru- bin wasn’t enthusiastic, but Clinton, seeking compromises with Congress, agreed to cut the capital gains tax rate to 20 percent. The Treasury is in charge of the economy, so it’s a natural protector of the economy; it sets the interest rate on federal debt.

“The irony is that Reagan got rid of the preferential rates for capital gains and he put them back in,” Sullivan said.

These changes drove down the overall tax rate paid by the wealthy. In 1996, before the capital gains cut under Clinton, millionaires paid an effective rate of 30.8 percent. By 2007, it was 22.1 percent.

Many tax experts contest the benefits of a low capital gains rate. Jane Gravelle, a tax expert at the Congressional Research Service, says a rate cut could generate more government revenue in the next year or two as investors take ad- vantage of lower rates or a rising market. But Clark and others worry they could distort the tax code or reduce tax revenues.

If you can’t get a nickel out of the most egregious people at the top of the heap, then there’s no political will [to raise the capital gains rate and take the money],” said Senator’s spokeswoman, Laena Fallin. Last year, two fundraising committees bailed out in nearly 82 million from securities and investment firms and real estate companies. Cantor has also re- ceived substantial campaign con- tributions from private equity firms. Krueger is his fifth-largest contributor in the last election cycle, giving $52,600.

Wall Street loves the preferen- tial capital gains rate. All of Amer- ica’s 20- or 30 million wealthy small investors love capital gains rates,” Sullivan said. “It’s just a tremendously popular item with political contributors. It’s some- thing that directly impacts every wealthy household in America.

Some lawmakers who have backed low tax rates on capital gains have later been hired by the financial industry. After leaving Congress, McGr- eery, for example, joined the lobbying firm Capitol Counsel, where one of his major clients in 2010 was the Alliance for Savings and Education, which funds the Business Roundtable, the Fi- nancial Services Forum and AT&T.

McCready said he hopes to rep- resent them again. Preferential treatment of capital gains “will encourage risk-taking, capital formation and therefore investment and job creation and . . . the kinds of things we have valued in this country in terms of people using their own business,” he said.

But others said that regardless of the economic arguments, the steady cutting of the capital gains tax rate reflects the political pow- er of the rich, who are more likely to contribute to politicians and benefit from the work of lobbyists.

In other words, inequality of wealth can lead to inequality of representation. “Capital gains taxes is actually pretty foreign to the experience of most voters,” said Jacob Hacker, a political science professor at Yale University and co-author of the book “Winner-Take-All Politics.” “These are things that are only a concern for those who itemize [their tax returns], which most Americans don’t.”

The 400 richest taxpayers in 2008 counted 60 percent of their income in the form of capital gains and 8 percent from salary. Wealth. The rest of the country reported 5 percent in capital gains and 72 percent in salary.

The result, Hacker says, is that the lobbying winds up being lop- sided, too.

“The amount of lobbying that takes place on tax policy from the deep-pocketed interests that have the most at stake is enormous,” Hacker said. “There’s very little representation on the other side.”

‘Don’t forget’ he added, “that members of Congress themselves, particularly senators, are at risk and they’re more likely to be sympathetic to the argument for low capital gains rates.”

Read the other parts of the story at washpost.com.
BREAKAWAY WEALTH

Congress looks less like rest of America

As income inequality increases, so does political polarization

by Peter Whoriskey

Butler, Pa. — One day after his shift at the steel mill, Gary Myers drove home in his 10-year-old Pontiac and told his wife he was going to run for Congress.

The odds were long. At 34, Myers was the shift foreman at the “hot mill” of the Armco plant here, who had no political experience and little or no money, and he was a Republican in a district that tilted Democratic.

But standing in the dining room, still in his work clothes, he said he felt voters deserved a better choice.

Three years later, he won. When Myers entered Congress, in 1975, it wasn’t nearly so unusual for a person with few assets besides a home to win and serve in Congress. Though lawmakers on Capitol Hill have long been more prosperous than other Americans, others of that time included a barber, a pipe fitter and a house painter. A handful had even organized into what was called the “Blue Collar Caucus.”

But the financial gap between Americans and their representatives in Congress has widened considerably since then, according to an analysis of financial disclosures by The Washington Post. Between 1984 and 2009, the median net worth of a member of Congress more than doubled, according to the analysis of financial disclosures, from $240,000 to $725,000 in inflation-adjusted 2009 dollars, excluding home equity.

Over the same period, the wealth of an American family has declined slightly, with the comparable median figure sliding from $20,600 to $20,550, according to the Panel Study of Income Dynamics from the University of Michigan.

The growing financial comfort of Congress relative to most Americans is consistent with the general trends in the United States toward inequality of wealth. Members of Congress have long been wealthier than average Americans, and in recent decades the wealth of the wealthiest Americans has outpaced that of the average. In 1984, the 90th percentile of U.S. families had holdings worth six times the median family’s; by 2009, the 90th percentile was worth 12 times the median family, according to the University of Michigan study, a longitudinal panel survey. These figures include home equity.

This growing inequality, not surprisingly, is seen in Congress. Not only has the median wealth increased, but the proportion of representatives who have little besides a home has shrunk. In 1984, high cost of campaigning

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This growing inequality, not surprisingly, is seen in Congress. Not only has the median wealth increased, but the proportion of representatives who have little besides a home has shrunk. In 1984,
one in five House members had zero or negative net worth excluding home equity, according to the disclosures; by 2009, that number had dropped to one in 12.

Another possible reason for the growing wealth of Congress is that running a campaign has become much, much more expensive, making it more likely that wealthy people, who can donate substantially to their own campaigns, gain office.

Since 1976, the average amount spent by winning House candidates quadrupled in inflation-adjusted dollars, to $1.4 million, according to the Federal Election Commission.

For example, Myers's first winning campaign, in 1974, cost $33,000, according to federal election records. That's about $146,000 in current dollars, or one-tenth the current average. To make do, his wife held coffee klatches and improvised brochures with markers and index cards.

"Each one had different colors and designs my mom made — and they'd hand them out at stores," recalled Myers's son, Mark. "I don't want to disparage my parents, but it was kind of like they were running for student council."

By contrast, when Kelly ran for the first time in 2010, he spent $1.2 million on his election, financing $380,000 of it himself, $1.2 million on his election, financing $380,000 of it himself, according to campaign records. That's about $174,000 in current dollars, or much, much more expensive, making it more likely that wealthy politicians; and blue-collar workers, who can donate substantially to their own campaigns, gain office.

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Congress is wealthier, but you're not

The net wealth of members of the U.S. House of Representatives has increased over the years, with income in 2009 more than double that of 1984, but American family wealth has been stagnant. While Republicans are somewhat wealthier than their Democratic counterparts, the gap between them has narrowed considerably.

<table>
<thead>
<tr>
<th>Year</th>
<th>Members of the U.S. House of Representatives</th>
<th>U.S. Families</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>$280,000</td>
<td>$28,669</td>
</tr>
<tr>
<td>2009</td>
<td>$725,056</td>
<td>$25,500</td>
</tr>
</tbody>
</table>


Wealth gap, voting gap

As the difference between rich and poor has widened in recent decades, so has political polarization in Congress.

- More equal income
- More equal voting patterns
- Less equal income
- Less equal voting patterns

Sources: Center for Responsive Politics, Census Bureau, DW-Nation's database on Vicidomine.com, H.R. Research

"I think he realized that good people sometimes fall on hard times," said James Kunder, who as a young Harvard graduate just out of the Marines worked as an aide to Myers in the '70s. "He wouldn't have been elected from that district at that time if he didn't exude some of that spirit.

"I don't have any doubt that my perspective was different from someone who had more money."
Click link for live web page: http://www.washingtonpost.com/wp-srv/special/politics/tax-reality-check/