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Taxes for an Ownership Society

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When President Bush talks about an "ownership society," hold on to your wallet. The slogan, like "compassionate conservative" before it, is sufficiently vague to mean many things to many people, and the few details that Mr. Bush has provided - encouraging more home ownership and offering new tax-sheltered savings plans - seem innocuous enough. But in tax terms, "ownership society" means only one thing: the further reduction, if not the elimination, of taxes on savings and investments, including taxes on dividends and on capital gains on stocks, bonds and real estate. That, in turn, means, by definition, a shift in the tax burden onto wages and salaries - or, put more simply, a wage tax.

The regressive results would be appalling. The richest 1 percent of Americans earn just about one-tenth of total wages and salaries, but almost half of all income from savings and investments - income that would be largely, perhaps entirely, untaxed in an "ownership society." In contrast, taxable wages and salaries make up almost all of the income of most Americans.

The Bush camp has been floating the idea that what the president is getting at is a consumption tax. But the administration is not talking about a true consumption tax, which would apply to spending regardless of where the money comes from - from your paycheck, cashing in your stocks and bonds, selling your house, or borrowing. It is, in effect, talking about a tax on wages.

Properly understood, a consumption tax is intended to increase national savings by making it relatively more attractive to save than to spend. The main argument against it is that it hits hardest at low-income and middle-income families, who tend to spend most of what they earn. But as Peter Orszag, an economist at the Brookings Institution, pointed out in a recent speech at Georgetown University, Mr. Bush's de facto wage tax would be the worst of all worlds: it would have all the regressive aspects of a consumption tax and none of its potential for increasing national savings.

When Mr. Bush talks about new tax-favored savings accounts, he never mentions that most people don't even take full advantage of existing plans. They won't be turned into "owners" by new tax breaks for interest, dividends and capital gains. To increase Americans' financial stake requires a strong economy in which people who work for a living share in the benefits of growth.

A good place to start would be to tackle the obstacles to sustained growth that currently exist, like spiraling health care costs, dependence on foreign oil and the administration's mania for unaffordable tax cuts - in short, to reverse, not intensify, the trends in the current economy.

In the past nearly three years of economic recovery, the distribution of economic growth has become more skewed than at any other time in modern memory. Currently, 47 percent of growth is flowing to corporate profits, by far the largest share than that in any of the other eight post-World War II recoveries. Fifteen percent goes to wages and salaries, the smallest share of economic growth in more than 50 years. To make matters worse, the share of compensation that is devoted to health and pension benefits is far larger during this recovery than in any other, representing a further squeeze on the wages and salaries of ordinary Americans. In 2004, take-home pay as a share of the economy dropped to its lowest level since 1929, when the government started keeping records.

All of this would make the drive for a wage tax laughable, if only it were a joke. And yet, when he says "ownership society," a wage tax is exactly what Mr. Bush is driving at.