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September 22, 2011

# The Social Contract

By **PAUL KRUGMAN**

This week President Obama said the obvious: that wealthy Americans, many of whom pay remarkably little in taxes, should bear part of the cost of reducing the long-run budget deficit. And Republicans like Representative Paul Ryan responded with shrieks of “class warfare.”

It was, of course, nothing of the sort. On the contrary, it’s people like Mr. Ryan, who want to exempt the very rich from bearing any of the burden of making our finances sustainable, who are waging class war.

As background, it helps to know what has been happening to incomes over the past three decades. Detailed estimates from the Congressional Budget Office — which only go up to 2005, but the basic picture surely hasn’t changed — show that between 1979 and 2005 the inflation-adjusted income of families in the middle of the income distribution rose 21 percent. That’s growth, but it’s slow, especially compared with the 100 percent rise in median income over a generation after World War II.

Meanwhile, over the same period, the income of the very rich, the top 100th of 1 percent of the income distribution, rose by 480 percent. No, that isn’t a misprint. In 2005 dollars, the average annual income of that group rose from \$4.2 million to \$24.3 million.

So do the wealthy look to you like the victims of class warfare?

To be fair, there is argument about the extent to which government policy was responsible for the spectacular disparity in income growth. What we know for sure, however, is that policy has consistently tilted to the advantage of the wealthy as opposed to the middle class.

Some of the most important aspects of that tilt involved such things as the sustained attack on organized labor and financial deregulation, which created huge fortunes even as it paved the way for economic disaster. For today, however, let’s focus just on taxes.

The budget office’s numbers show that the federal tax burden has fallen for all income classes, which itself runs counter to the rhetoric you hear from the usual suspects. But that burden has fallen much more, as a percentage of income, for the wealthy. Partly this reflects big cuts in top income tax rates, but, beyond that, there has been a major shift of taxation away from wealth and toward work: tax rates on corporate profits, capital gains and dividends have all fallen, while the

payroll tax — the main tax paid by most workers — has gone up.

And one consequence of the shift of taxation away from wealth and toward work is the creation of many situations in which — just as Warren Buffett and Mr. Obama say — people with multimillion-dollar incomes, who typically derive much of that income from capital gains and other sources that face low taxes, end up paying a lower overall tax rate than middle-class workers. And we're not talking about a few exceptional cases.

According to new estimates by the nonpartisan Tax Policy Center, one-fourth of those with incomes of more than \$1 million a year pay income and payroll tax of 12.6 percent of their income or less, putting their tax burden below that of many in the middle class.

Now, I know how the right will respond to these facts: with misleading statistics and dubious moral claims.

On one side, we have the claim that the rising share of taxes paid by the rich shows that their burden is rising, not falling. To point out the obvious, the rich are paying more taxes because they're much richer than they used to be. When middle-class incomes barely grow while the incomes of the wealthiest rise by a factor of six, how could the tax share of the rich not go up, even if their tax rate is falling?

On the other side, we have the claim that the rich have the right to keep their money — which misses the point that all of us live in and benefit from being part of a larger society.

Elizabeth Warren, the financial reformer who is now running for the United States Senate in Massachusetts, recently made some eloquent remarks to this effect that are, rightly, getting a lot of attention. "There is nobody in this country who got rich on his own. Nobody," [she declared](#), pointing out that the rich can only get rich thanks to the "social contract" that provides a decent, functioning society in which they can prosper.

Which brings us back to those cries of "class warfare."

Republicans claim to be deeply worried by budget deficits. Indeed, Mr. Ryan has called the deficit an "existential threat" to America. Yet they are insisting that the wealthy — who presumably have as much of a stake as everyone else in the nation's future — should not be called upon to play any role in warding off that existential threat.

Well, that amounts to a demand that a small number of very lucky people be exempted from the social contract that applies to everyone else. And that, in case you're wondering, is what real class warfare looks like.

