TO:	Hillary Rodham Clinton
To ~~FROM~~:	Jennifer Klein J.K.
DATE:	7/23/98
RE:	EITC

I spoke with Gene's staff person about the Sunday *NY Times* article calling EITC "a Republican initiative." He explained that Gene was "real mad" but hadn't taken action. We talked about getting someone from outside to do a letter to the editor saying that this has been a Democratic initiative all along and that the President has been its champion since taking office. As you know, EITC was originally pushed by Russell Long, signed by Ford, and expanded by Bush. It has been consistently attacked by the Republicans and defended by the President since 1995, making the article's claim quite unfair.

I've also attached a related E.J. Dionne piece in case you missed it.

Someone needs to write response/correction to Times to run soon - Pls. work w/ Gene to get done.

cc Jen Klein
What does Gene S think of this?
file

Taxpayers shouldn't be subsidizing CEO pay

By Martin Olav Sabo

Although April is often called the cruelest month, May is proving equally tough for struggling American workers. This month, thousands of Americans are shocked to find out what the executives at their companies are being paid. If those same workers found out that their tax dollars were subsidizing the most excessive of CEO salaries, that shock would probably turn to anger.

As America's major business publications have recently released their annual surveys of CEO compensation, there have been the usual denunciations of the excess. Organized labor has even responded with a web site to track the problem. But to me, more troubling than the size of a CEO's salary is the skewed relationship between that salary and the pay of other workers in the same company.

Businessweek's most recent survey illustrates how one-sided this relationship has become. While average wages rose 3% in 1996, the average CEO salary and bonus grew 39% to $2.3 million.

Americans have always assumed that when a company succeeds, all employees will share in that success. But for the past two decades that has become alarmingly less true. In 1974, CEOs in manufacturing firms made 34 times what average workers did. By 1995, that figure had exploded to 159 times the pay of average workers.

Concern over excessive executive pay should not only arise in May when the top salaries are publicized. We need an ongoing national discussion about its impact on income inequality and how that inequality affects both our economy and our society. Income inequality has grown almost continuously in America since the 1970s and the income gap has become more pronounced in the United States than in any other industrialized nation.

Part of the problem is our tax code. It now allows extremely high salaries to be tax deductible as a business expense. In short, the very Americans who are repelled by excessive executive salaries are subsidizing them with their hard-earned tax dollars. Like many, I don't believe that our tax code intends to make excessive executive pay completely tax deductible.

Under current law, business may deduct "a reasonable allowance for salaries or other compensation." However, the law defines reasonable as $1 million, which is more than what 99.9% of Americans earn. Companies have therefore been able to deduct salaries that are vastly disproportionate to those of their lowest-paid employees.

We need to redefine what is "a reasonable allowance." We can do that by capping the tax deduction for executive compensation at 25 times the salary of the lowest-paid full-time employee in a firm. In other words, if the lowest-paid worker is a clerk who makes $12,000, the CEO could make $300,000 before the company loses any deduction.

I'm not out to attack CEOs. In fact, I am a strong believer in the importance of organizational leadership. Skilled executives make vital contributions to their companies and deserve to be compensated accordingly. But a company doesn't exist solely for the benefit of those running it. It has a relationship with shareholders, consumers, communities and workers — all of which are essential to the company's success.

The goal is not limiting pay at the top, but rather raising pay for those at the bottom. I would offer businesses a choice. If they wish to have U.S. taxpayers subsidize executive salaries, they should create an equitable link between the top and bottom of their pay scales. If they don't, they give up part of their tax deduction.

My plan is by no means the entire solution to America's income inequality. I hope, however, that it will spur private-sector decision-makers to think about their workers when they [redacted]e compensation decisions. Those who work on the factory floor should be as important cc Jen Klein

file

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My plan is by no means the entire solution to America's income inequality. I hope, however, that it will spur private-sector decision-makers to think about their workers when they make compensation decisions. Those who work on the factory floor should be as important as those who work in the executive suite.

Rep. Martin Olav Sabo, D-Minn., is sponsor of the Income Equity Act.

Jen:

We fought this fight in 1993. In Putting People First The President proposed limiting the deduction of CEO pay to $1 million. Bentsen, Altman, & Rubin hated this idea. And were able to weaken it to the point that it doesn't affect anybody; that's the "reasonable allowance" language.

The Middle Class: Winning in Politics, Losing in Life

By LOUIS UCHITELLE

THE great American middle class. Politicians of the left and right court it. Policies, liberal and conservative, are proclaimed on its behalf. Health care reform was to have eased its cares. Tuition subsidies educate its children. President Clinton made a "middle class tax cut" a centerpiece of his election campaign.

Most voters see themselves as members of the middle class, so Newt Gingrich, the House Speaker, picked up the theme. When the Republican-controlled Congress finally passed a tax bill last year, he described it as the Republican "fulfillment of what President Clinton promised — a middle class tax cut."

But for all its mythic power, the middle class is finishing last in the race for improvement in the current economic boom. At the top and bottom of the economic ladder, wages are rising briskly. In the middle, they are rising slowly. This is unusual. While upper-income people often improve their lot faster than the middle class, lower-income workers hardly ever do.

The middle class of political exhortation and national myth isn't the same as the statistical middle of the wage scale, the place where progress is surprisingly slow. Half of the so-called middle class tax cuts enacted last year went to people earning more than $93,000. And while the median household earns almost $40,000 a year, the median individual wage is much lower: $11.13 an hour last month, or about $23,000 a year for a 40-hour work week.

It isn't that workers in this statistical middle — people earning roughly $23,000 to $32,000 a year for a 40-hour week — are visibly aggrieved because they are losing ground to their upper- and lower-earning fellow citizens. After all, their pay has gone up faster than the inflation rate over the last two years, even if the increase is not as great as the one experienced by lower- and upper-income workers.

"Everyone seems to be reacting to the favorable improvement in their pay," said Richard Curtin, director of consumer surveys at the University of Michigan. "But the longer the expansion lasts, the more people will turn toward comparisons with other groups. That's when the grumbling and the wage demands begin. When you look across society, you are not really seeing that yet."

The Middle-Class Life

Lots of things can help someone improve his lot in life, of course. A rising stock market, tax breaks, inheritance, government subsidies like Medicare and Social Security, extra hours on the job and overtime pay all play roles, particularly for those at the top and bottom of the income ladder. The really wealthy often rely not on wages but on earnings from their investments. And many households put together the wages of two or three household members, bringing the median household income to nearly $40,000, which is enough to live a middle-class life in most of the United States.

By some estimates, a family of four must bring in at least $27,000 a year from one or more wage earners to maintain what John Schwarz, a political scientist at Arizona State University, describes as "a minimally adequate standard of living." In pursuit of that goal, most people measure their standing in the work force by what they earn individually on the job.

The bottom 20 percent on the national wage scale

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Week in Review

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earning $14,500 a year or less for a 40-hour week, has gained the most ground over the last two years, once wages are adjusted for inflation. Upper-income Americans, those earning north of $75,000 a year, have gained almost as much as the low-income people in the same two-year stretch. The middle group has gained a little ground since 1996, but less than the others.

Breakthrough

Viewed over the full eight years of the current economic expansion, the middle has actually lost ground, while the top and the bottom have gained at roughly the same gradual pace. Once wages are adjusted for inflation, the low end, for the first time, has regained all the ground lost in the early 1990's and is now earning more than in 1989, when the last economic expansion ended and a recession set in, undercutting wages.

Workers earnings slightly more than the poorest group or, at the other extreme, somewhat less than the richest wage earners, also did better than those in the middle, although not as well as those at either extreme.

The breakthrough came this year. The low-end wage, a maximum of $6.99 an hour last month for the bottom 20 percent, was 20 cents higher than in 1989, adjusted for inflation, according to the Economic Policy Institute, which calculated the trends from data provided by the Labor Department's Bureau of Labor Statistics.

By comparison, the median wage, smack in the middle, was $11.13 an hour in June, or 17 cents lower than in 1989. The upper end, mostly peopled by well educated and skilled workers, seldom loses ground in any year. At the high end, the wage of $24.63 an hour today, adjusted for inflation, is 91 cents ahead of the comparable 1989 level.

There are reasons, of course, for the slide in the middle. Despite all the rhetorical emphasis on policies that favor the middle class, it is low-income workers who have gotten the extra nod from Washington in this economic expansion — particularly through a 90-cents-an-hour increase in the minimum wage since October 1996. It was an increase that the Democrats proposed and the Republicans in Congress finally favored.

The minimum reached $5.15 an hour last September, and the ripple effect has pushed up wages for workers earning as much as 50 cents an hour over the minimum. That is a big portion of the people in the lower 20 percent of the American work force.

"The higher minimum wage is the key factor that has lifted people at the bottom," said Edward Wolff, a labor economist at New York University, whose own earnings calculations produced roughly the same results as those of the Economic Policy Institute.

The economy has played a big role, too. A surge in growth over the last two years and a falling unemployment rate produced labor shortages that showed up first at the low end of the work force. Meanwhile, middle-level workers, while finding jobs easily enough, had more difficulty raising their wages. Mr. Wolff and other labor economists tick off the reasons.

Computers have diluted the demand for clerks, secretaries and other medium-skilled workers. Unions, once the powerful bargaining agents of middle Americans, are weak today. Rising imports have hurt workers who make the same goods in this country. Corporate downsizing spread in the 1990's through white-collar ranks, making middle-income people feel less secure in their jobs and more reluctant to push for raises. And a bigger percentage of the work force now has a college education or at least some college training, diluting the demand for them. The wages of people with only four years of college are no longer rising.

"While middle income people benefit from the tight labor market, they have a harder time digging themselves out of the wage hole," said Jared Bernstein, a labor economist at the Economic Policy Institute.

Hard to Help

They are also harder for government to help, says Edward Montgomery, the Labor Department's chief economist. A huge swath of people who earn roughly $23,000 to $55,000 a year — and pay more than 40 percent of all Federal income taxes — are much more on their own than lower-income workers. There are government-subsidized training programs, for example, to get unemployed people into the low end of the labor force. The minimum wage and the earned-income tax credit (a Republican initiative that rebates tax revenue to low-wage workers) put a floor under their income. But middle-level people depend much more on their own dealings with their employers to determine their situations.

"It is harder for government policies to reach these middle level people," Mr. Montgomery said. "In a free enterprise society, we are hesitant to subsidize an employer for something he would do anyway."

James Carville

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TO: Mrs. Clinton C/O Jenn Klein/Neera Tanden

FAX: 456-2878

DATE: July 31, 1998

I understand that you wanted a response to this article, I hope the attached is acceptable. Enjoy your vacation!

James

PAGES (INCLUDING THIS ONE): 2

If you have any problems receiving this fax, please call 202/543-1196

JAMES CARVILLE

Pamphleteer and Raconteur

Letter to the editor of the New York Times:

In an article on the politics of the middle class, the New York Times called the Earned Income Tax Credit, one of the best programs for lifting up low income working families, a "Republican initiative." (Louis Uchitelle, "The Middle Class: Winning in Politics, Losing in Life," July 19, 1998). I beg to differ.

On a charitable day, I could see calling the EITC a bipartisan initiative, but a Republican one? Get real. While Gerald Ford did sign it into law, it was Russell Long, a Democratic Senator from my home state of Louisiana, that pushed the EITC through Congress. More important, for the past six years Republicans have ridiculed the EITC as "welfare spending," and tried to undermine it in every way.

In 1993, President Clinton doubled the EITC so that he could give tax cuts to 15 million low-income working families -- without a single Republican vote. In 1995, they tried to cut the EITC by $31 billion, which would have raised taxes for nearly 8 million working families with incomes under $30,000. Now they're at it again. The Gingrich-Kasich House budget eliminates the EITC for married couples without children. If that's not enough, the Speaker himself recently said that we could siphon off the money from the EITC to pay for eliminating all estate taxes for the richest 1.4% of Americans. Given the past six years of Republican raids on EITC, offering them credit for this initiative is like giving Marie Antoinette credit for promoting cake.

James Carville

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