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Punishment with widening ripples

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American stockholders are now recognized as an oppressed group by politicians' rhetoric of the last few months.

Stockholders are those with the faith and vision that keep the economic system afloat, and there is little doubt they are abused both by government and some corporate managers. However, despite the rhetoric, there is little evidence that government officials or corporate managers are about to cease this abusive behavior.

Most Americans, and even most liberals, say they support capitalism, and for good reason. The modern version of capitalism began emerging in the Netherlands and England about 400 years ago, and has proved itself unambiguously superior to all other economic systems. For capitalism to work, however, private property must be protected, free markets without price controls must be allowed to operate, and people with faith and vision in new business ventures must be allowed to reap rewards for risks they take.

Despite the theoretical commitment to capitalism, its underpinnings are constantly under attack by people who call themselves capitalists. Property rights are under attack by self-styled environmentalists and preservationists. Free markets are under attack by those who think the state ought to control housing rents or those who think drug prices are too high.

And those with faith and vision — the entrepreneurs and stockholders — are under constant attack by those who envy the rich and advocate big government.

But, would you be willing to risk your money in a new, unproven technology that has great promise, knowing that the government would tax you up to 70 percent of the income generated? That is exactly what happens to millions of Americans. Corporations pay an average maximum rate of 40 percent in federal and state income taxes and, if the remaining 60 percent is paid in dividends, the rate is often more than 50 percent for upper middle class shareholders living in high-tax locals like New York City. Such a tax burden is economically destructive, since it leads to lower levels of investment, productivity, growth and job creation.

Surveys show most Americans think no one, including the very rich, should pay more than 20 percent of their income in taxes, but most people have no idea of how heavily shareholders are taxed.

The present tax burden on those with faith and vision is bad economics, and is at best questionable morality. Serious students of tax policy have long advocated getting rid of the double taxation of corporate dividends.

Thoughtful editorial writers like those at the Wall Street Journal and serious policy advocates are correctly pushing for their deductibility. This change would remove much of the incentive for companies to move their headquarters out of the U.S. as well as the misuse of corporate funds.

However, what has been striking is the deafening silence from the political class on the issue. Instead, Congress has passed more regulations, which will only make the plight of the stockholder worse, as foreign competitors with lower taxes and fewer regulations increase their competitive advantage over U.S. firms.

Politicians, often reluctant to stand for principle, are proving themselves cowardly in this issue. Republicans fear being attacked for "supporting the rich," and Democrats think attacking corporations and stockholders plays to their working class supporters. What both sides are overlooking is that most Americans are now stockholders, either directly in stocks or mutual funds, or indirectly through pension programs. Most have also come to realize that, without a healthy stock market, everyone suffers because of the slowdown in business and job creation.

If someone came to your door with a gun and demanded 70 percent of your income for which you received little in return, you would call it theft. Our Founding Fathers created a government to protect person and property. The government, in too many cases, is not protecting but is, in fact, stealing property.

If politicians are too timid or corrupt to protect those with faith and vision, who will? Business people have a direct stake in protecting the system, but all too few have the courage or commitment to spend the money to educate opinion leaders and citizens about what the system needs to operate successfully and the damage being done by bad government policy.

George Weyerhauser and the late John Renshaw saw in the 1970s that high capital-gains taxes were destroying American growth. They took the initiative to support groups able to explain to the politicians, members of the media, and others why it was necessary to cut the capital-gains tax to revive the entrepreneurial economy.

The late Robert Krieble and other business leaders contributed money to many public policy organizations in order to make the supply side revolution a reality, thereby ushering in the greatest economic boom of our nation's history.

Unfortunately, there seem to be few of these business statesmen at the moment. Too many corporate executives make "charitable" donations to organizations whose mission is, in part, to undermine capitalism or to some family member's favorite causes than to organizations that would help protect stockholders' interests.

The Capital Research Center in its annual survey of "Patterns of Corporate Philanthropy" found that, for every dollar major corporations gave to groups that could be reasonably considered protectors of shareholders, they gave $4.61 to groups advocating bigger government or taking other antishareholder positions.

It is not surprising that some of the companies, such as Fannie Mae, Freddie Mac and Merrill Lynch, that have come under scrutiny for questionable business practices also have been some of the biggest contributors to organizations that undermine business.

Those who had the faith and courage to invest in enterprises should be protected by those who received their money. That protection, in part, requires businesses to support those organizations whose mission is to explain and protect the system that has provided such bounty and liberty to so many.

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