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Wealth creators vs. protectors

By Richard W. Rahn
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A major reason the liberal elites so hate President Bush is the policies he pushes will reduce their power and influence. Sens. John Kerry and Edward Kennedy, Massachusetts Democrats, claim they are the protectors of the little guy and the middle class. Yet their proposals are designed to protect the elite like themselves who inherited rather than created wealth.

Much of the evidence comes from institutional financial consultant, Criton Zoakos, head of Leto Research. Mr. Zoakos reviewed opinion polls of voting behavior and noticed a most interesting relationship between voting preference and share of wealth. Starting with the basics, Mr. Zoakos noted: "Opinion polls suggest that Sen. John Kerry enjoys the overwhelming support of voters self-designated as 'upper class.' These comprise 4 percent of all voters."

In the 2000 elections, this elite group voted 56 percent for Al Gore and 39 percent for George Bush. Mr. Zoakos also noted that in 2000, self-designated "working class" (18 percent of voters) and "lower class" (2 percent of voters) supported Al Gore by 51 percent and 46 percent for Mr. Bush.

Mr. Bush did have a small majority of voters who defined themselves as "middle class" in the 2000 election, and recent polls indicate his "middle class" vote base has strengthened.

What is not well known (and contrary to the liberal media myth) is that wealth in America is becoming less concentrated, not more so. According to an extensive study by Professors Wojciech Kopczuk of Columbia University and Emmanuel Saez of Berkeley, published by the National Bureau of Economic Research in June, the share of wealth owned by the top 1 percent of Americans has dropped by half over the last 80 years (37.61 percent in 1920 to 20.79 percent in 2000).

Over the same period, the drop in holdings owned by the top 0.1 percent (tenth of 1 percent) was even sharper (10.07 percent in 1920 to 3.90 percent in 2000).

This drop in relative wealth holdings by the richest was more than offset by a rise in middle-class wealth holdings. It also appears from the Forbes Magazine data that the 400 richest Americans in recent years have also increased their relative share of the pie of the top 1 percent.

Thus, many in the top 1 percent feel squeezed, not absolutely, but relatively, by the rise of the middle and entrepreneurial classes on both flanks.

The very wealthy can be divided into two distinct groups -- those who by their own skills, hard work and some luck created wealth and jobs, and those who were lucky inheritors of wealth. The Kerrys and Kennedys of the world, who owe their inherited fortunes to the hard work and risk-taking of others, tend to look down and fear the "noveau riche," forgetting that their own ancestors were once "noveau riche" or worse.

It is the conflicting economic interests between those who perceive themselves as upper class (by virtue of inherited wealth) and those who perceive themselves as middle or entrepreneurial class, which largely accounts for their different political choices. As Mr. Zoakos observed: "The middle class prefers fiscal, monetary and regulatory polices that favor wealth creation and competition.The upper class prefers policies that favor wealth preservation and protection from competition."

If you do not have much wealth and want to improve your situation, you will prefer a tax system with relatively low marginal tax rates on labor income and capital gains, and provisions which allow reasonable tax-free savings for retirement, medical care, and education.

Such a tax system enables an individual to create wealth and reduce dependency. President Bush has both enacted and proposed measures to move the tax system in this direction.

If you already have a great deal of money, you will prefer a tax system that allows unlimited amounts of tax-exempt investment income from low-risk vehicles like state and local government bonds. You may also prefer high tax rates on earned income and capital gains to make it more difficult for those who have little wealth to become wealthy like you. This is the approach Mr. Kerry advocates, even though his rhetoric is about the middle class squeeze -- which his tax policies would only worsen. Mr. Kerry has said his tax increase will only apply to people making $200,000 a year or more. But many of these people have few assets because they are entrepreneurs who are in debt and building a business or young professionals, like doctors, who are still paying off hundreds of thousands of dollars in student loans.

From the very limited wealth and tax information the Kerrys have revealed about themselves, it appears Mr. Kerry's tax proposal might not cause the Kerry family to pay any additional tax, though they are clearly in the top .001 percent of all Americans in terms of wealth. Mr. Kerry's proposal to tax people making more than $200,000 per year applies to incomes slightly greater than a U.S. senator's salary. And it appears his wife (from the rate of return on her estimated assets) has almost all of her money in tax-free bonds.

If Mr. Kerry chose not to be hypocritical and really wanted to "tax the rich more" as he has said, he could do it by proposing to tax the income from all sources for those with net assets of more than $10 million at whatever higher rate he thought appropriate. I suggest the $10 million net asset figure because this is roughly the amount one would need to enjoy a $200,000 relatively risk-free retirement income and, according to Mr. Kerry, above that income level one is wealthy.

Perhaps a Republican member of Congress should introduce such a bill to see if Mr. Kerry and Mr. Kennedy would support it.

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