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Who spends your money better?

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For charitable and educational spending, do you think you or the government can make a wiser decision on how your money should be spent? The question is important because Congress will soon again debate whether to abolish the estate and gift tax.

The advocates for keeping the estate and gift tax are the normal big government types with socialist leanings, but also, surprisingly, the representatives of some of the wealthiest people in American. Bill Gates Sr. (father of the world's richest man -- Bill Gates, founder of Microsoft) -- is a very successful lawyer and wealthy man in his own right, and co-chairman of the world's largest foundation: the Bill and Melinda Gates Foundation. He has become one of the best-known advocates of keeping the estate and gift tax. One of his key arguments and that of his allies, such as Warren Buffet (the world's second-richest man), is that the "government needs the money." It is an interesting argument, coming from a group of people almost all of whom have set up tax free foundations to give away their money, rather than have the government spend it.

Think about it for a moment, if these advocates for the estate and gift tax really believed the government would spend their money better than themselves, they would quite willingly pay the estate and gift tax on their entire fortunes and, perhaps, then some.

But if you look at their actions rather than their words, you find they act very differently. Almost all the very wealthy set up foundations and/or trusts, including third-generation skipping trusts, to avoid paying the tax that some of them advocate. Economists use the term "revealed preference" to explain the difference between people's actions and words.

In most cases, the private foundations do spend the money far more effectively than government. We know most government programs to assist the poor, the sick, the disadvantaged and those needing education have extremely high overheads and often fail to meet the stated objectives. We know government-funded science and economic policy research has been nowhere nearly as cost-effective as that of the private sector and the think tanks. Yes, there have been many private foundation scandals where the money was stolen or misspent, but the magnitude of most of these transgressions is small compared to what goes on in government every day. Just recall how much money was poorly spent and stolen in the Katrina disaster. Or, the largest theft of all time, the U.N.-"managed" oil-for-food program, which was many times larger than the Enron scandal.

Having dealt with both government aid and privately managed organizations over the last few decades, I have little doubt those like the Gates Foundation will be far more cost-effective in treating AIDS and malaria in Africa than the various government organizations, including multinationals, such as the World Bank and the U.N.

However, the Gates Foundation and the others will be disappointed about the long-run effect of their efforts, unless they also spend money to obtain the necessary institutional and economic policy reform in the targeted countries. The World Bank, the International Monetary Fund, and U.S. Agency for International Development frequently find their grants to help the poor are stolen by corrupt rulers. The private foundations are less likely to have their money directly stolen, but if the corruption and economic mismanagement in the assisted countries continues, most of people will remain in poverty and the health, education, and food problems will persist.

The present estate and gift tax has been a great burden to owners of family businesses, including farmers, and in some cases forced the sale of businesses owned by families for generations, because the tax hits people with very modest inheritances. The tax is also deemed unfair in that one or more layers of taxes have already been paid on the money, and the tax reduces the net productive saving and investment available for job creation and productivity growth. The super-rich can afford the high-priced lawyers and accountants to find legal ways to avoid paying the tax, unlike many small business people.

The U.S. government already has far more money than it can wisely and productively spend, which is one reason waste, fraud, and abuse is always with us.

Most Americans do not go off and spend their inheritances on wild binges -- but a few do, which is good for the sales of the tabloids. The vast majority who receive an inheritance invest it wisely in businesses, use it to educate their children, and donate the excess to a wide variety of worthy causes.

If you really think the politicians and bureaucrats in Washington are likely to spend it more productively and wisely, I have a bridge I would like to sell you.

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