

WHEN GEORGE McGovern ran for President in 1968, he was bewildered to find that the strongest opposition to his plan for a higher estate tax came from working-class audiences. "They must think they're going to inherit a million dollars," he harumphed.

Herman Kahn told this story to Republican strategists to indicate that McGovern didn't realise that what was at issue was not self-interest but an ethical position. Today, 60% of Americans favour the death of the estate tax (according to a Gallup poll taken in June), even though only about one-sixth felt that they would personally benefit. *The Wall Street Journal* (July 13) noted that "Even that 17% is far higher than reality" – the entire \$20 billion benefit of abolition would accrue to about 1% of the population! Only 2% of U.S. estates are taxed. That is why President Clinton has promised to veto any Congressional abolition of the tax, claiming it would be fiscally irresponsible and accelerate economic polarization. It would cost the government a quarter of a trillion dollars over the next decade – a sum that would have to be made up by shifting taxes even more onto wage-earners.

What is at issue is not reality, but popular dreams of self-advancement. Poll-takers found that what most voters had in mind when they thought about the inheritance tax was the relatively modest legacy they would leave to their children.

More to the point, *there is an erroneous belief that most wealth has been "earned"*. There is no popular idea of wealth being acquired through exploitative or even illegal ways, e.g. by corporate raiding and financial fraud, or by lobbying for favours. Voters have lost the distinction between earned and unearned wealth, productive merit and passive privilege.

THE FACTS are clear. The share of wealth owned by the "bottom 40%" of the population has fallen from 0.9% (1983) to 0.2% (1998). The top 1% of Americans own over 38% of total wealth (up from 33.8% in 1983). The top 20% own 83.4% (up from 81.3%). Thus, the great gains have

occurred not to the middle class, or even to the bulk of the fairly rich, but to the very, very wealthy.

This is just one of the truths that goes against the preconceptions of voters. Critics would say that they have been brainwashed.

The great bulk of this wealth is not "earned". It is obtained the "old fashioned way". It is inherited. It takes many years for most people to save just a little wealth, while stock-market and real estate prices are now soaring as financial markets are being inflated (while employment is downsized and out-sourced). This violates principles of distributive justice.

But now that the global economy (outside of Japan) has entered an epoch of asset-price inflation, the wealth gap has taken on an even stronger significance. While most attention has been focused on the stock market, prices for homes and other real estate have soared just as rapidly. Since last spring, stock prices for real estate investment trusts (REITs) have been among the market leaders.

Every prospective homebuyer – or renter, for that matter, commercial as well as residential – is experiencing the great wave of property price gains. This, not the political campaign, has become the major topic of discussion when most people get together.

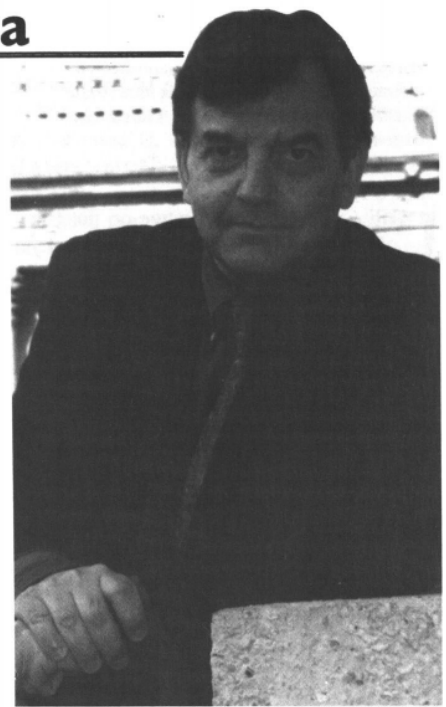
IT IS STRIKING how the public thinks of inheritance as offering greater opportunity for merit and initiative – by providing an incentive to accumulate wealth to bequeath to one's heirs – rather than its antithesis.

But house prices have now risen so sharply that the only way most wage-earners – including much of the middle class – can obtain their own homes is to inherit them. They are too expensive to buy. Yet remarkably, rising real estate and stock market prices are welcomed as a sign of prosperity, not of exclusion.

About two-thirds of the population owns their homes in the US. This is about the same share as in Britain. The proportion has stayed remarkably stable during the last half-century, but not because of the "freedom of choice". We are dealing more with a game in which the counters have all been handed out, and those

without them are excluded. Whatever their merits, however hard they work, owning a home is becoming a chimera for many people. This is the meaning of today's "prosperity." Yet few ask whether the rising price of assets relative to income has negative economic and social consequences.

One set of conse-



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quences concerns the exclusion of racial and ethnic minorities from homeownership. The median net worth of black families is about \$5,000, compared to \$83,000 for white families (according to the Federal Reserve Board's Survey of Consumer Finances). *Yet racial minorities are among the heaviest supporters of abolishing the estate tax.*

So much for Marx's idea that classes will behave in their own economic self-interest! This phenomenon is more like the Stockholm Syndrome, in which the victims of kidnapping or hijacking identify their interest with that of their captor. But in this case, the Stockholm Syndrome is occurring on a broad social scale.

This attests to the effectiveness of political lobbies for the wealthy, such as the Heritage Foundation, the American Enterprise Institute and the Cato Institute. These well-endowed think tanks are replacing universities and churches as the sources of popular ideology.

What's the remedy? One way to solve the problem would be a land tax. Another would be an inheritance tax. The absence of a death tax skews the economic "playing field." As economies polarize, and as land prices and the price of property already in existence – stocks and bonds, real estate and "hard assets" such as fine arts and offshore bank accounts – rise relative to commodity prices and wage rates, more and more people find themselves excluded from the promised prosperity. Today's drive to abolish the death tax is diametrically opposed to early attempts to release enterprise, virtue and merit – and industrial capitalism – from its feudal legacies.

There's life beyond the Death Tax