INSTITUTE ON ASSETS AND SOCIAL POLICY

Monthly Perspective

Building Assets and Asset Wealth

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For the past decade, a coalition of business lobbyists and wealthy families has waged a crusade to abolish the nation's only tax on inherited wealth. They have been effective in persuading the public that the estate tax falls on everyone (when it applies to less than the wealthiest 1.5%) and that it destroys small businesses and family farms. (It doesn't.)

In 2001, their multimillion-dollar lobbying efforts paid off. Congress voted to phase out the estate tax by gradually raising the exemption level from $1 million in 2002 to $3.5 million in 2009. The tax will disappear in 2010—millionaires and billionaires who die that year will pass on their fortunes tax-free. Its fate after 2010 has yet to be determined. The tax will return to its 2002 levels in 2011 unless Congress revisits the issue.

Defenders of maintaining the estate tax have mounted a rear-guard effort to preserve the tax. Their fight has been made more difficult by the public's ho-hum response to the threatened repeal. Last year, the estate tax added $28 billion to the U.S. Treasury and stimulated an estimated $10 billion in charitable giving. Because the revenues go into the general treasury, however, its benefits appear remote. Abolishing the estate tax would lead to budget cuts and a shift in the tax burden onto those less able to pay. Many don't see how its repeal would produce any direct loss to themselves or their communities.

The uncertainty surrounding the long-term status of the estate tax provides an opportunity for those who care about broadening wealth to suggest an alternative to reducing or eliminating the estate tax. These advocates want to establish a wealth-building policy agenda centered around the idea of dedicating the revenue from a levy on inherited fortunes into asset-building initiatives that would directly augment people's personal and household assets.

If revenues from the estate tax were dedicated to a "GI Bill for the next generation" and used to underwrite wealth-building programs, the benefits of taxing concentrations of inherited wealth would be made clear. The GI Bill established after World War is an example of an effective public investment in its citizens, utterly transforming the lives of millions of people. In 1947, 49 percent of those attending college were veterans, many the first in their families to go beyond high school.

The GI Bill education benefits, combined with the post-war subsidized mortgages through the Federal Housing Administration, Farmers Home and the Veteran's Administration, provided over 35 million Americans with tickets on the wealth-building train. Yet African American war veterans, returning to widespread discrimination in mortgage lending and a Jim Crow South with limited college opportunities, were often left standing at the train station. Why can't we do it again, without the discrimination?

A simple proposal: create a wealth-building fund and have it be capitalized by a reformed federal estate tax. Reforming the tax, by exempting the first $2.5 million in wealth for an individual and $5 million for a couple, would generate over a trillion dollars in revenue over the next two decades. With an enormous intergenerational transfer of wealth occurring in the coming decades, a modified estate tax could be a robust source of revenue for asset-building initiatives.

A key benefit would be the mobilization and advancement of Americans on the fringe of the economic mainstream who aspire to own a home, start a business, have the means to pay for college education, and live securely in retirement. On the ground, a nascent "wealth broadening movement" already exists, made up of public policy groups, labor organizations, civil rights groups, wealthy families, and community-development corporations and agencies who promote affordable housing and homeownership, credit unions, and IDAs, as well as savings and investment clubs within religious congregations. These groups aspire to broaden their programs through state and federal legislation, but are hampered by the absence of sizable funding streams. They could provide organizational infrastructure and resources for a wealth-broadening movement that would bring many into the economic mainstream. Others suggest creating a universal savings program for all citizens as they come of age, modeled after the recently passed "baby bond" program in Britain.

The cumulative impact of a program to broaden wealth by taxing wealth would be to dramatically reduce, over a generation, the disparities of wealth in the United States. It would be uniquely American for those who have accrued tremendous wealth from doing business in our country to pay a portion of their accumulated wealth to capitalize a GI bill-style wealth-broadening program to create real economic and social opportunity for future generations.

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