Let's Talk about Fairness.

Tag: The Republicans say it is fair to repeal the estate tax, but what's so fair about shifting a $43 billion dollar tax burden onto the working class?

By Michael Coblenz

Republicans are closing in on a long cherished goal of repealing the Estate Tax, which they derisively call the "death tax." They are scheduled to address the repeal when Congress resumes at the beginning of September. They say that it is unfair to tax people’s wealth when they die, particularly since the money was taxed during life.

"Eliminating the death tax is a matter of basic fairness," President Bush said.

But estate taxes were enacted based on a different idea of fairness: When the government needs money it is less fair to tax earned wages than unearned inheritance.

A bias against inherited wealth has deep historical roots in this country, and estate taxes are among the oldest individual taxes in the nation. Most of the early settlers were from England, and many were deeply skeptical of the society they left. British society was controlled by an inherited aristocracy: the owners of great landed estates. The system known as primogeniture, in which the estate was passed wholly to the eldest male heir, preserved these estates and kept power in the hands of wealthy landowners.

Many of the men who came to the colonies were not first sons: and had to come to the new world to make their living. They understood the problems with inherited wealth and the effects of primogeniture, and purposefully set out to end it. As a result, most colonies forbade primogeniture, and most instituted estate taxes to limit the ability to acquire wealth and power through inheritance.

Both estate and income taxes were proposed when this nation first contemplated federal taxes, which were imposed temporarily during the Civil War, then permanently at the start of the 20th Century. At that time, the richest man in America, Andrew Carnegie was one of the strongest advocates for taxing investment and inherited wealth rather than income.

Earned income, or wages earned by labor, was considered the most productive form of income, and therefore, to be encouraged. Carnegie called wages "the highest form of distribution, being for work done and not for charity." Investment income and inherited wealth, in contrast, was thought to be created through no effort of the recipient, and was considered less productive than wages. Investments and inheritances should, according to Carnegie, be taxed more heavily that "earned income."

Carnegie suggested that only the largest estates should be taxed and that "by all means such taxes should be graduated, beginning at nothing upon moderate sums to dependants, and increasing rapidly as the amounts swell." He proposed an upper limit of about 50% of large estates.

Carnegie's views were endorsed by many economists, but few politicians. One exception was President Theodore Roosevelt, who said the prime objective of such a tax "should be to put a constantly increasing burden on the inheritance of those swollen fortunes which it is certainly of no benefit to this country to perpetuate." To achieve this, Roosevelt suggested a graduated tax, which would increase dramatically as the size of the estate increased. "It is most desirable to encourage thrift and ambition, and a potent source of thrift and ambition is the desire on the part of the breadwinner to leave his children well off. This object can be attained by making the tax very small on moderate amounts of property" but steadily increasing as the estate grows. With Carnegie and Roosevelt's support the estate tax was enacted.

Modern estate taxes largely follow Carnegie and Roosevelt's suggestion, and only apply to the riches handful of people. The top tax rate is 47%, and currently applies to estates valued at $1,500,000 for individuals, or $3 million for a married couple. In 2001 only 2% of all estates paid the tax, yet it generated over $23 billion in revenue.

While these taxes are arguably a burden on some farmers and small businesses, their burden is being used as an excuse to give a huge tax break to the richest people in the country. This is hardly fair. If the Republicans want to give $43 billion in tax breaks, why don't they increase the personal exemption, which would benefit every tax payer, not just the richest 2%? Now that would be fair.

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