US House votes to eliminate inheritance tax

Patrick Martin
13 June 2000

In perhaps the most unabashed handout to the rich ever provided by an American Congress, the US House of Representatives voted by a lopsided margin June 9 to abolish the inheritance tax. The roll-call vote was 279-136, with every Republican present voting for the bill, while some 65 Democrats broke with the Clinton administration to support it.

The bill faces an uncertain future, since Senate passage is not assured, and Clinton has threatened a veto. But the fact of its adoption by the House speaks volumes about the present state of American politics, and the naked worship of wealth which dominates American society and culture.

The estate tax was adopted during the Progressive Era as a concession to popular hostility to the vast concentration of wealth in the hands of the owners of giant corporate monopolies. It has been gradually watered down over many decades, with the result that only about two percent of all estates, about 43,000 out of two million in 1998, paid any tax at all.

The richest families have created a sizeable industry of well-paid estate planners and tax lawyers to find new and ever more ingenious methods of evading estate taxes and preserving concentrated wealth, through such devices as the establishment of family trusts.

Nonetheless, after the slashing of income tax rates under Reagan and the reduction of capital gains taxes under Bush and Clinton, the estate tax remains a significant annoyance to the wealthy, and the single most progressive feature of the federal tax code. According to Treasury figures, of the $20.3 billion in inheritance tax collected last year, about half was paid by the fewer than 3,000 estates worth more than $5 million. Some 22 percent of the total tax, $4.4 billion in all, came from just 374 estates valued at more than $20 million.

It might appear incomprehensible that in an election year the majority party in Congress should adopt as one of its top priorities the elimination of a tax paid by about one one-thousandth of the population—those who, since they are already extremely wealthy, can well afford to pay. Yet not only did the Republican congressional leadership take this step, but its decision was generally portrayed in the media as a clever tactical maneuver, rather than an act of political suicide.

The *New York Times* reported that in the congressional wrangling over the bill, “Democrats joined Republicans in recognizing the issue's political potency.” Indeed, according to the *Times*, the bill was passed by the House, not so much because Republicans expect it to be enacted into law over a Clinton veto, but in order “to score points with crucial constituencies.”

Who are these “crucial constituencies”? For many of the congressmen, of course, the repeal of the inheritance tax was a vote to benefit their biggest political and financial patrons, their closest friends or even themselves personally. That was certainly the case with the measure's main sponsor, Texas Congressman Bill Archer, who represents a district in Houston which has a large concentration of oil millionaires. Archer gave the estate tax a propaganda label—the “death tax”—and crusaded against it as though taxing inheritances was a violation of human rights.

But the repeal of the estate tax is not just a hefty favor to the ultra-rich. It is believed, with some justification, to be politically popular in a broader constituency than the few tens of thousands of super-rich who will directly benefit. Surrounding this core of great wealth—and this is a key to understanding the current political dynamics in America—is a layer of the extremely well-off upper middle class who, while not yet in the financial stratosphere, aspire to it.

These are people who enjoy six-figure incomes, and, thanks to rising real estate and stock market prices, seven-figure assets, at least on paper. According to recent census figures there are some four million people in the United States with assets of at least one million dollars. This is still a tiny fraction, a little over one percent, of the nearly 300 million people in this country. But from the standpoint of the bourgeois political system, this layer of millionaires-on-paper constitutes a powerful and frequently decisive element in public opinion.

Under the present law, very few of these four million millionaires would face a significant estate tax when they die. The current law exempts the first $675,000 of property passed on to heirs, rising to $1 million by 2006. For the owners of businesses and farms, the exemption is already at $1.3 million. Any tax paid on inheritances above the exemption level is graduated, only rising to 55 percent for the largest estates.

Despite these facts, it has been relatively easy for congressional Republicans to conduct a demagogic attack on the estate tax as an oppressive government measure directed against small business owners and family farmers, and win support among the privileged upper middle class.

Moreover, given the prevailing ethos of personal accumulation, neither congressmen nor media pundits feel constrained, let alone ashamed, by accusations of favoring the interests of the rich and well-to-do. Symptomatic in that respect is a column which appeared in Sunday's *Detroit Free Press*, written by Mitch Albom. A sports columnist and successful author, Albom is certainly one of the four million paper millionaires. Although he occasionally comments on social questions from a liberal standpoint, he hailed the abolition of the inheritance tax in the crassest terms, declaring, “Something isn't right simply because it benefits poor people. And something isn't wrong simply because it benefits the rich.”

The Democrats as well as the Republicans are acutely sensitive to the interests of this social layer. The ranking Democrat on the House Ways and Means Committee, Harlem congressman Charles Rangel, reportedly became interested in this issue because of the problems faced by black car dealers and newspaper publishers who sought to minimize the estate taxes on their prosperous family businesses.

Rangel introduced alternative legislative which would have sharply reduced the tax rate for owners of family businesses by raising their exemption to $4 million, while cutting the rate overall, but not eliminating the tax entirely. This measure was defeated by a largely party-line vote of 222-196.

President Clinton indicated he would support a bill along the lines drafted by Rangel, sending a letter to House Speaker J. Dennis Hastert warning, “If you send me a bill to completely repeal the estate tax, I will veto it rather than risk the fiscal progress that has contributed to the longest economic expansion in history."

Clinton's reference to “fiscal progress” is typical of the Democratic approach to the bill, which has been to argue against it as irresponsible from the standpoint of balancing the budget, instead of focusing on the clear class bias of the legislation, as a windfall for the wealthy. The long-term effect of the bill, once it is phased in, will be to cut $50 billion a year from federal tax revenues.

The shift in congressional sentiment over the past decade was indicated by Christopher Cox, a conservative Republican of Newport Beach, California, who recalled that he could not find a single co-sponsor for a bill to eliminate the estate tax when he first introduced it in 1993. This year's legislation was approved, not only by the entire state Republican delegation, but by 12 California Democratic congressmen, including liberals like Zoe Lofgren of San Jose (Silicon Valley).