US Senate majority backs windfall for the rich through repeal of estate tax

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A clear majority of the Senate voted Thursday for the single largest handout to the super-rich in US history, a bill for permanent repeal of the tax on inherited wealth, but the measure fell just short of the 60 votes required to cut off debate and secure passage. The 57-41 vote means that supporters of repeal may have to settle for a slightly less gargantuan tax cut for multi-millionaires in order to attract the three additional votes needed to close debate and pass the measure.

Senate Majority Leader William Frist (Republican of Tennessee) had refused to allow a vote on anything less than 100 percent repeal until after the vote to impose cloture and cut off debate. When that vote failed, Frist indicated another vote would be scheduled later in the year, either on the same bill or on one that would continue the estate tax but at a sharply reduced rate. Outright repeal would cost the Treasury an estimated $776 billion over ten years, while the "compromise" versions would shower $652 billion and $550 billion respectively on the richest Americans.

Only two Republicans, Lincoln Chafee of Rhode Island and George Voinovich of Ohio, broke with the Republican majority on estate tax repeal. Four Democrats sided with the Republican majority and voted to cut off debate: Ben Nelson of Nebraska, Blanche Lincoln of Arkansas, Max Baucus of Montana and Bill Nelson of Florida.

The estate tax is paid only by a handful of wealthy families—only three out of every 1,000 estates exceed the current $4 million threshold. The repeal drive has been spearheaded and financed by 18 billionaire families, including the Waltons of Wal-Mart, who have spent over $200 million lobbying to preserve and expand their colossal share of the national wealth. Among the 18 families are the Dorrances, owners of Campbell Soup, the Mars candy family and the Gallo wine family.

The estate tax was phased out over ten years under the $1.3 trillion tax-reduction package adopted in 2001, in which a half-dozen Senate Democrats played a key role in insuring passage of the plan pushed by the Bush White House. In order to make the tax cut for the wealthy as large as possible, the legislation provided for phase-out of the estate tax by 2010, followed by its complete restoration in 2011.

This bizarre arrangement was necessary to satisfy budget constraints, which were based on calculating the ten-year cost of the tax break. The administration always intended to eliminate the 2011 restoration in subsequent years and make the tax cut permanent, but this has become more difficult with the skyrocketing federal budget deficit.

The House of Representatives passed permanent repeal of the estate tax in April 2005, but the Senate postponed scheduled action in September, after hurricane Katrina. Senate Finance Committee Chairman Charles Grassley said that abolishing a tax on the wealthiest Americans would send the wrong political signal in the midst of mass suffering in the biggest natural disaster in US history.

It is a remarkable fact of American life that it was only when television screens were dominated by images of American working people drowned, starving or begging for help that the political establishment in Washington felt embarrassed about enacting a new windfall for the financial elite. Now, five months before the November elections, the congressional leaders of both big business parties claim that the elimination of the estate tax is a popular, vote-getting measure. Republicans are anxious to push it through, while the Democratic opposition is half-hearted and timid.

This demonstrates the extraordinary degree to which the interests of a financial oligarchy dictate official policy. It is a product of the unprecedented concentration of wealth over the past three decades, a process which is accelerating under the Bush administration.

Incomes are being recorded which have no parallel in modern history, even in the period of the Robber Barons of the late 19th century. According to a report issued last week on hedge funds—a purely speculative financial venture which pools the capital of wealthy investors—the top 25 hedge fund managers made an average income of $330 million in 2005. The two most highly paid, James Simons of Renaissance Technologies and oilfield speculator T. Boone Pickens, made $1.5 billion and $1.4 billion in personal income, respectively. It is such fortunes that now require new forms of legal protection.

The campaign for repeal of the estate tax has used the same "big lie" technique as the campaign against the alleged threat of gay marriage. The estate tax, applied to only a relative handful of the wealthiest individuals, was labeled the "death tax," and the impression was given that countless family farmers and small businessmen were being forced to sell out rather than bequeath their tiny assets to their sons and daughters.

A typical example of this campaign was the editorial Thursday in the *Wall Street Journal*, which condemned the support for the estate tax by billionaire investor Warren Buffett and Bill Gates Sr., father of the Microsoft tycoon. Billionaires don't actually pay estate taxes, the *Journal* claimed. "The real people who pay the levy are the thrifty middle class and entrepreneurs who've built up a modest nest egg or business and are hit by a 46% tax rate when they die. Americans want family businesses, ranches, farms and other assets to be passed from one generation to the next. Yet the US has one of the highest death tax rates in the world."

As repeated studies have demonstrated, the truth is that less than half of one percent of all estates are taxed under current law, and by 2009 this would include a grand total of 65 farms in the entire United States (actually not "farms," but rather substantial agribusinesses). The current law already provides that the exemption level will rise to $3 million in 2009 for an individual and $7.5 million for a couple, when only three out of 1,000 estates will pay anything in estate tax.

Permanent repeal of the tax would cost $776 billion in revenue loss from 2012 to 2021, as well as an additional $213 billion in interest on the increased federal debt, a total of nearly $1 trillion. Some 71 percent of the additional benefits would go to those inheriting more than $10 million, with the balance going to those inheriting more than $3 million. There is literally no benefit for anyone not inheriting millions.

Under an alternative plan proposed by Arizona Republican Jon Kyl, the first $5 million of an estate would be tax exempt, while estates between $5 million and $30 million would be taxed at 15 percent, the current rate for capital gains, and amounts above $30 million would be taxed at 30 percent—a sharp reduction from the current rate of 46 percent.

Democrats overwhelmingly opposed the estate tax repeal, but largely on the grounds of its fiscal recklessness. "We will take the money which we are not going to collect from the estate tax and end up borrowing it," said minority whip Richard Durbin of Illinois.

One leading Democrat, ranking Finance Committee member Max Baucus of Montana, has proposed his own version of estate tax reduction, similar to Kyl's, but with slightly lower exemptions and slightly higher tax rates for the very wealthiest. This plan would still eliminate more than two-thirds of the taxes on inherited wealth over the decade from 2012 to 2021.

All of these plans would drastically exacerbate wealth and income inequality in the United States, which are already at record levels. One analysis by the Tax Policy Center, for example, found that estate tax repeal would give more money to the millionaires in just one year than all the income taxes paid by the poorest 65 million taxpayers. These taxpayers, with incomes less than $29,000, paid a total of $25.9 billion in income taxes. The estate tax elimination would give some 50,000 people more than $40 billion.

The 2001 tax cut legislation already represents one of the largest windfalls for the wealthy in history. According to an analysis by the Center on Budget and Policy Priorities (CBPP), the number of estates subject to tax has declined from more than 50,000 in 2000 to only 13,000 this year, and will drop to barely 7,000 by 2009. The vast majority of the wealthy have thus already been completely exempted from this tax.

Aside from the fiscal implications—repeal of the estate tax will complete the bankrupting of the federal treasury, forcing massive cuts in basic social benefits like Medicare and Social Security—there are the reactionary social consequences. One of the few commentaries to focus on this aspect of the issue appeared Monday in the *Washington Post*, written by Sebastian Mallaby, in general a fervent advocate of the capitalist "free market," as well as the Bush administration's decision to invade Iraq.

He voiced the fear that repeal of the estate tax, combined with rising economic inequality, would result in a permanent change in the US social structure. "For most of the past century, the case for the estate tax was regarded as self-evident," he wrote. "The estate tax, like a cigarette tax or a carbon tax, is a tool for reducing a socially damaging phenomenon—the emergence of a hereditary upper class—as well as a way of raising money."

Under conditions where the presidency itself has become a semi-hereditary position, passed down from father to son, and perhaps next from husband to wife, it would seem that Mallaby's warning is more than belated. A financial oligarchy already dominates American society, controlling not only the economic levers of power in the banks and giant corporations, but both political parties and every institution of the state.