

USING THE ESTATE TAX TO MITIGATE EXTREME WEALTH INEQUALITY IN THE U.S.

Learn what extreme wealth inequality in the U.S. looks like, how it happened, and how we can fix it.

Audrey Kayser (April 2019)

Traditionally, we visualize wealth distribution as a pyramid, with the vast majority holding most of the wealth at the bottom and the extremely rich holding a small proportion at the top.



However, current wealth inequality in the U.S. can be better visualized as Seattle's Space Needle (Collins & Hoxie, 2015, p. 2). Notice how the Space Needle is top-heavy and the further you go up, the greater the imbalance.

There's a rotating luxury restaurant at the top of the Space Needle that can seat 400 people. If those 400 people were the 400 wealthiest people in the U.S., they would own more wealth than the bottom 61% of the U.S. population combined (194 million people) (Collins & Hoxie, 2015, p. 3).



Now imagine a luxury private jet flying above the Space Needle. If this jet could hold 20 people, and if those 20 people were the 20 wealthiest people in the U.S., this jet alone would be holding more wealth than the bottom half of the U.S. combined (152 million people) (Collins & Hoxie, 2015, p. 3).



WHY IS THIS A PROBLEM?

Extreme wealth inequality goes against American ideals, is undemocratic, and has negative long-term effects on our economy.

- 1** During the American Revolution, people believed that you had a right to your property, but huge concentrations of wealth and power should be discouraged. This is because large concentrations of wealth and power characterized an aristocratic society, not a free republic (Avi-Yonah, 2002, p. 1408).
- 2** As wealth inequality increases, our nation begins to look less and less like a democracy. This is largely because ultra-wealthy Americans have the means to fund lobbyists, interest groups, and campaigns— and therefore have more political power than the average American (Gilens, 2012; Scheve & Stasavage, 2017). At the end of the day, a tiny minority of people having a disproportionate effect on what legislation passes or is even considered doesn't bode well for our democratic system.
- 3** Extreme wealth inequality also has negative long-term effects on economic growth. This comes from social unrest, political instability, decreased investment, worse health, and decreased education. Studies have found that countries with extreme wealth inequality also struggle with enforcing property rights, which are key to a sound economy (Caron & Repetti, 2013, p. 1265; Collins & Hoxie, 2015, p. 7).

HOW DID THIS HAPPEN?

Wealth inequality exists everywhere, no matter the design of society (communist, capitalist, autocratic, democratic, etc.). But *extreme* wealth inequality is avoidable, and often the result of government policies allowing wealth to flow to the top and stay there. In the U.S., some of these policies include government subsidies and the current tax code (Frisby, 2018).

THE U.S. TAX CODE

The tax code in the U.S. is incredibly complex, but here's what you need to know:

- 1) Most of the government's revenue comes from the income tax. The income tax doesn't tax assets and capital gains.
- 2) Therefore, the government isn't really taxing where the huge stores of wealth are.