CHAPTER ONE

What Kind of Nation Do We Want to Be?

> The reality is that US society is polarizing and its social arteries hardening. The sumptuousness and bleakness of the respective lifestyles of rich and poor represent a scale of difference in opportunity and wealth that is almost medieval—and a standing offense to the American expectation that everyone has the opportunity for life, liberty and happiness.
>
> —Will Hutton, *Observer of London*[1]

> The purpose of the estate tax is not to raise revenue . . . but to gradually correct the distribution of wealth and to prevent concentrations of power detrimental to the fair value of political liberty and fair equality of opportunity.
>
> —John Rawls, *A Theory of Justice*

What makes America great are the things we have done to strengthen equality of opportunity. Over the last century, we have made significant progress toward this ideal.

One of the important things our country has done to strengthen equality of opportunity is to put a brake on the accumulation of hereditary wealth. It could be argued that a society based on opportunity for all could still flourish in a nation with great inequalities of wealth. We share a concern with our nation's founders that the existence of a powerful economic aristocracy distorts our democracy and negates equality of opportunity. As

we'll see, these fears were realized during the Gilded Age of the late 1800s, and the estate tax was part of our country's remedy.

The estate tax both limits the power of concentrated wealth and generates revenue to pay for government from those most able to pay. Our basic assumption in opposing repeal of the estate tax is that we will continue to have a federal government that will require substantial revenue. This assumption is not an argument—it is a plain and simple reality. Despite divergent views on the purpose and size of government, it is most reasonable that the estate tax be part of financing it.

But let's say, for the sake of argument, we agree that to pay for the minimal services of our federal government we need to raise a trillion dollars a year. Do we primarily raise this revenue from the incomes and wages of workers? Or from taxes on the consumption of goods? Or from the estates of deceased wealthy people? All taxes have upsides and downsides. Taxes that fall entirely on consumption discourage spending, thereby affecting the economy negatively. A tax system that raises revenue solely from income taxes would seriously burden persons with low incomes. An established principle of taxation is that a good tax system will raise revenue from a variety of sources and be fair, stable, and sufficient.

REVENUE LOSS AND THE TAX BURDEN SHIFT

The debate over the estate tax must take into account the absolute requirement for federal and state revenue. And the estate tax should be evaluated against all the other forms of taxation. What other form of taxation do we have that is better targeted to those most able to pay? No other constituency is in a better position to contribute to public services than the heirs of deceased multimillionaires. Although the progressive income tax collects revenue from those with high annual incomes, it does not begin to tap the reservoirs of vast wealth and assets that exist in our nation.

One way or another, a certain amount of money must be paid in taxes to the U.S. government to support its activities. We could have a long debate about the proper size and scope of government, but most people would agree that the federal government fulfills

vital functions and we need to support its activities with tax dollars. Eliminating the estate tax would deprive the government of a dependable and highly progressive source of revenue.

As we'll see, the long-term fiscal health of the country has been put at risk by the 2001 tax cut. If that tax cut is not reversed, we can look forward to substantial budget deficits for decades to come. In this light, the elimination of the estate tax—and the shift in tax burden—is even more stark. As William Gale and Samara Potter noted in their assessment of the entire 2001 tax bill,

> Tax cuts are not simply a matter of returning unneeded or unused funds to taxpayers, but rather a choice to require other, future taxpayers to cover the long-term deficit, which the tax cut significantly exacerbates. Likewise, the notion that the surplus is "the taxpayers' money" and should be returned to them omits the observation that the fiscal gap is "the taxpayers' debt" and should be paid by them. Thus, the issue is not whether taxpayers should have their tax payments returned, but rather *which* taxpayers—current or future—will be required to pay for the spending obligations incurred by current and past taxpayers.[2]

Consider these looming budget deficits juxtaposed with the immense increases in personal wealth that have taken place in this country in the last fifteen to twenty years. Despite the instability in the stock market and the return to earth of the technology sector, there has been a dizzying accumulation of wealth.

It would be folly for the patchwork of future federal revenue sources not to include a tax on these accumulations. Today the revenue from the estate tax generates about $30 billion, or about 1 percent of federal revenue, but it could be a significant and larger contributor to the national revenue base in the years to come.

Boston College researchers John J. Havens and Paul G. Schervish have modeled projections about the scale of the intergenerational transfer of wealth that will occur between now and 2052.[3] They have also speculated about the scale of potential estate tax revenue. In their research, they offer a range of estimates based on different expectations of growth. The estimated size of the intergenerational transfer of wealth between 1998 and 2052 ranges

from a low estimate of $40.6 trillion, based on a modest 2 percent growth rate, to a high estimate of $136.2 trillion, based on a 4 percent growth rate. Under the low growth estimate, an estimated $15.4 trillion will pass from the 839,000 estates valued at more than $5 million.[4]

Havens and Schervish estimate that over this period between $13.4 trillion and $25.8 trillion will pass from living parents to children. They estimate that the total bequests to heirs, including these inter vivos (between the living) gifts, will range from $24.6 trillion to $65.3 trillion. An estimated $19.4 trillion to $50.6 trillion will be given to charities.

The amount of revenue generated for the estate tax is substantial under these scenarios, even if we anticipate the impact of current reforms such as increased exemptions. Havens and Schervish project that under their low-growth estimate $8.5 trillion of this intergenerational wealth transfer will be paid in estate taxes. Over fifty-four years, average annual estate tax revenue would be $157 billion a year. Under the higher-growth estimate, estate tax revenue would be $40.6 trillion, for average annual estate tax revenue of $752 billion per year.

An estate tax on only the four hundred wealthiest Americans would generate substantial revenue. The average net worth of the individuals and families listed on the Forbes 400 is $2.4 billion. To join the 400 club required $725 million in 2001. This is a great leap from when *Forbes Magazine* first started counting in 1982, when the average net worth of the Forbes 400 was $400 million and the entry threshold was $91 million.[5] A meaningful estate tax imposed on these wonderfully successful people's wealth (their heirs, actually) could generate, at an effective tax rate of 30 percent and an exemption of $3 million, $278 billion over the years between now and the demise of the last survivor!

Losing federal estate tax revenue ranging from $157 billion to $752 billion a year would trigger two possible negative scenarios. There will be either serious cutbacks in public expenditures or serious increases in the taxes of those less able to pay.

THE IMPACT ON STATE TREASURIES

Estate and inheritance taxes at the state level preceded the current federal estate tax, but since the mid-1920s there has been an interaction between states and the federal government related to estate taxation. In 1926, the estate tax law was amended to allow taxpayers to claim a deduction against their federal estate tax liability for the amount of estate taxes they pay to their states.

Although estate tax repeal does not occur until the year 2010, some state governments are already beginning to feel the loss in revenue. In structuring the phaseout of the estate tax, congressional tax writers reduced the pinch on the federal treasury by accelerating the timetable of revenue loss to the states. Starting in 2002, thirty-eight states began to lose a portion of the revenue that they received through their state "pickup" tax.

Many states will lose all of this tax revenue sharing by 2005, while the repeal of the federal estate tax occurs more gradually over ten years. This structuring will accelerate the loss of at least $50 billion to $100 billion over the next ten years, about 1.5 percent of state tax collections. One of the ways the federal government masked the true costs of repeal was to shift this burden to the states. In essence, the federal government will end up pocketing the money that otherwise would have gone to the states from 2006 through 2011.

This is not chump change, especially for cash-strapped state legislatures. The impact on individual states varies by the size of the state and the wealth of its elderly population. California will lose the most in terms of dollars, with an estimated $356 million annual loss as the estate tax begins to be phased out in 2002—and a $1 billion loss by 2005, when it is fully phased out. For California, with the biggest state budget in the country, this accounts for only 1.2 percent of the state's total revenues. In New York, New Jersey, and Connecticut, each state would lose between 2.5 and 2.8 percent of total revenue. New Hampshire, which has no income tax on wages and no sales tax, would be the hardest hit. The $25 million loss would account for 4.6 percent of all state revenues.

Estate tax repeal couldn't come at a worse time for states. "This is going to hit at an especially hard time," wrote Kevin Sack in the *New York Times,* "as states are already facing declining revenues from sales taxes, income taxes and slumping capital gains. And they are facing further reductions in spending on schools, roads, prisons and social services." Some states are tapping rainy-day funds that they built up during the 1990s economic expansion.[6]

"The strong fiscal conditions of a year ago have been replaced by anemic revenue growth and expanding budget gaps," concluded a report by the National Conference of State Legislatures. "While revenue has slowed," writes John Harwood in the *Wall Street Journal,* "states have faced Medicaid health-care expenditures that rose by about 14%, more than double the rate forecast, in 40 states that the conference surveyed. As a result, state budget surpluses for the just-completed fiscal year fell by the largest proportion in 20 years, to 8.2% of spending from 11.5 percent in 2000."[7]

As states grapple with new constraints, they will be losing one of the most progressive sources of revenue available to them. Yet many people will not understand that one of the factors contributing to their woes is the repeal of the federal estate tax.

Instead, states will turn to the usual menu of possible budget cuts or revenue raisers. If they have the political will to raise revenue, which very few states do these days, they will probably not try to pass or expand a state inheritance tax, though some are considering ways to retain their state-level estate taxes.[8] In most cases, we will see increased sales and cigarette taxes, state income taxes, and cute accounting and revenue gimmicks, such as borrowing against future tobacco settlements and lotteries.

Even more likely, we will see budget cuts that trim very close to home, cuts that will affect the quality of public safety, schools, health care, and social services for the needy. The lost revenue from the repeal of the federal estate tax will most likely appear as an invisible gap, yet it will be another reason to tighten state and federal fiscal belts.

THE ESTATE TAX AND INEQUALITY

Preserving our federal estate tax plays a critical role in limiting the concentration of wealth in our country. It's surprising how little the recent debate over the estate tax probed this fundamentally American concern.

At the heart of the "American experiment" is our vision of equality of opportunity and the rejection of hereditary wealth and power. As inadequate as our efforts to build equality of opportunity have been, the establishment of greater concentrations of wealth and power will only undermine them.

America's democratic tradition is skeptical of concentrated wealth and power. What each of us *does* in our lives, our contribution to work and society, is thought to be more important than the family into which we are born.

When the estate tax was established in 1916, our nation was deep in struggle over the values of equality of opportunity versus hereditary privilege. The accumulation of great wealth and the power of the great trusts lead to questions about the direction of our society. One of the expressed intentions of the tax, as articulated by Theodore Roosevelt, was to break up "those fortunes swollen beyond all healthy limits."[9]

This sentiment was not "antirich." Rather, it branched out from a belief that such concentrations of wealth are corrosive to liberty. Today the levels of inequality in the United States are at their highest point since the 1920s.[10] This is an unusually imprudent time to abolish one of the few taxes that has slowed this buildup of wealth in the hands of a few.

THE DANGERS OF INEQUALITY TODAY

Our nation has presently attained levels of inequality approaching the 1880–1900 Gilded Age conditions that gave rise to a movement to establish the estate tax. Yet, after a pitifully one-sided debate, our response has been to eliminate one of the few mechanisms to correct this imbalance.

A recently observed slogan says it all: "I lived through ten years

of unprecedented economic prosperity and all I got was this lousy T-shirt." The economic boom of the 1990s was highly uneven, with the majority of people's incomes staying flat. Over the last thirty years, real wages have remained largely stagnant or have fallen for the bottom 60 percent of households. In 1996, real wages started to climb so that by the year 2000 the median wage earner had almost climbed out of a hole. But after a two-decade long wage slump, the median wage earned in 2000 was still less, adjusting for inflation, than the median wage in 1973, when Richard Nixon was president.[11]

The United States is now the most unequal society in the industrialized world. The richest fifth of Americans earn eleven times more than the bottom fifth.[12] At the bottom end of the pay scale, the number of people working for poverty wages is troubling. The estimated "living wage," meant to lift a wage earner out of poverty, is now at least ten dollars an hour; the federal minimum wage is stalled at just over half that amount.[13] Many workers have held their households together by working longer hours, holding several jobs, and increasing the number of paid earners in their families. Two-paycheck families became the majority in 1998.[14] One cartoonist illustrated this development by depicting a politician speaking at a banquet, bragging that his "administration had created millions of new jobs." The waiter at the banquet observes, "Yes I know, I have three of them."

At the same time, the incomes of the top one-fifth of households increased steeply and the incomes of the top 1 percent have skyrocketed. The compensation gap between the highest-paid workers and those earning the average wage in the United States has grown at a dizzying pace. According to *Business Week*'s annual review of executive compensation, in 1980 the disparity between the highest-paid workers in America's 365 largest companies and their employees was forty-two to one. Today, the ratio exceeds five hundred to one.[15]

The disparities in wealth and savings are even more disturbing than income inequalities. Wealth ownership is a less visible yet critical indicator of economic well-being. Wealth is the security

that people have to fall back on, the reserves that help them to weather an economic downturn. Savings and assets propel people forward to home ownership and small business development.

Historically, the share of private wealth owned by the top 1 percent of households has fluctuated. In 1870, before the peak of the Industrial Revolution, it is estimated that the wealthiest 1 percent owned 27 percent of wealth, with the top 10 percent owning 70 percent. By 1912, as the Gilded Age waned, the share owned by the top 1 percent had doubled to 56.4 percent. At the same time, the wealthiest 10 percent of households owned 90 percent of all wealth.[16] On the eve of the Great Depression, in 1928 and 1929, after the advent of modern taxation and the First World War, from 1914 through 1918, the share owned by the top 1 percent had declined to 40 percent of all private wealth.[17]

In the three decades after World War II, our nation actively pursued public policies that shared prosperity and equality of opportunity. The result was a greatly expanded middle class and reduced wealth inequality. These policies included the GI bill, federal mortgage assistance programs, college loans and grants, and incentives for small business development. These were costly initiatives that were paid for, in part, by progressive taxes.[18] Few people today would question the prudence of those investments, as many families celebrated their first home purchase and first college graduate in the postwar years.

The data about postwar years demonstrate that these were decades of relatively greater shared prosperity.[19] Incomes for all quintiles doubled between 1947 and 1979. It is estimated that by 1976 the share of wealth owned by the top 1 percent of households had dipped below 20 percent. Since then our society has reversed direction and moved toward levels of wealth inequality unparalleled since the eve of the Great Depression.

Today the wealthiest 1 percent of households again own over 38 percent of all private wealth. In terms of financial wealth, including the ownership of stocks, bonds, and other investments, the top 1 percent of households own 47 percent and the top 20 percent own 91 percent. The benefits of the economic boom of

the last two decades were highly skewed to the top. Between 1983 and 1998, almost all the growth in wealth of the economic boom went to the top 20 percent of households. Over the same time period the wealth of the bottom 40 percent of households showed an absolute decline.[20]

It is true that more Americans than ever own stock. Since 1983, the percentage of Americans owning stock grew dramatically from 24.4 percent to 48.2 percent. This was the result of households shifting savings from banks to mutual funds and greater investment in retirement instruments, such as private pension accounts like 401(k) plans and IRAs. But even for those families with investments in the stock market, their stake was small. Only 32 percent of households owned more than ten thousand dollars in stock. The concentration of stock ownership mirrored the overall levels of wealth inequality, with the top 1 percent of the population owning 42 percent of all stock and the top 20 percent owning almost 90 percent.[21]

As more asset wealth was held in fewer hands, the savings rate went into steep decline, from 10.9 percent in 1982 to 2.3 percent in 2001.[22] With wage rates flat or falling, many Americans took on unprecedented amounts of consumer and mortgage debt.

The disparities in wealth are even more pronounced from the perspective of race. The median white household has eight times as much wealth as the median black household. The median net worth for a white household is $81,700; for African-Americans it is $10,000. Median Hispanic net worth declined from $5,300 in 1995 to $3,000 in 1998. Removing home ownership from the equation, white financial net worth is $37,600; African-American net worth is $1,200, and Hispanic financial net worth is $0, meaning half of Hispanic households have zero or negative financial net worth.[23]

No one can fully explain the causes of accelerating income and wealth inequality. But most economists agree that multiple forces are at work, including technological change, deunionization, and global competition. Public policies during this period, particularly taxation, have exacerbated inequalities by favoring

large-asset owners and corporations over wage earners and smaller businesses. The taxation burden on higher incomes and capital gains has consistently fallen in the last four decades, shifting the tax burden off of high earners and large corporations and onto individual taxpayers.[24] The effort to repeal the estate tax is part of this trend.

Why does inequality matter? Some commentators have made the case that we should focus our efforts on alleviating poverty, not inequality. For this reason, a tremendous amount of public and charitable resources go toward lifting the floor, building pathways out of poverty for individuals and communities. But inequality does matter, because concentrations of wealth and power distort our democratic institutions and economic system and undermine social cohesion.

CONCENTRATED WEALTH AND DEMOCRACY

If concentrations of wealth did not translate into political power and influence in our democracy, they might be less troubling. But unfortunately they go hand in hand. As Supreme Court Justice Louis Brandeis observed a century ago, "We can have concentrated wealth in the hands of a few or we can have democracy. But we cannot have both."[25]

Once a household accumulates wealth above a certain threshold, say $15 million, it has moved beyond the point of meeting its needs and aspirations of itself and its heirs. Such households are now in the nation's top quarter of the richest 1 percent of households and stand atop a global pinnacle of wealth almost too enormous to contemplate. By the late 1990s, there were an estimated forty thousand households with more than $25 million and five thousand with over $100 million.[26] They may be asking themselves, as Bud Fox queried speculator Gordon Gekko in the 1987 film *Wall Street,* "How many yachts can you water-ski behind?"

The amassing of great wealth, above a certain point, becomes an accumulation of social and political power. This is not inherently evil power, as the legacy of Carnegie's libraries and Rockefeller's contributions to medical research attest. But in a demo-

cratic, self-governing society, we should be concerned with the potential threat that concentrated wealth poses to our democratic institutions. Political scientist Samuel Huntington observed that in the United States "money becomes evil not when it is used to buy goods but when it is used to buy power. . . . Economic inequalities become evil when they are translated into political inequalities."[27]

Our democracy is now at risk because of the enormous power of accumulated wealth. The practices of government, administration, and law writing have been molded by the money power of the few, against the interests of the many. For example, the concentration of media ownership narrows and cheapens public discourse. When Ben Bagdikian wrote *The Media Monopoly* in 1983, about fifty media conglomerates controlled more than half of all broadcast media, newspapers, magazines, video, radio, music, publishing and film in the country. Today, fewer than ten multinational media conglomerates dominate the American mass media landscape.[28]

A more publicized example of the influence of money and power is how we finance our elections and write our laws. Both the high cost of running for elected office and the enormous amount of resources devoted to lobbying underscore the quantum leap in financial influence that has changed our national politics. In 2000, the average winner of a Senate election spent $7.7 million; the average winner of a House election spent $842,000.[29] Less than 1 percent of the population make contributions of two hundred dollars or more to candidates; half the donors have incomes over $250,000 per year.[30] These contributions clearly have an influence on public policy, particularly on roll call votes on issues that do not attract significant publicity, like special interest tax legislation.[31] And this skewed influence also explains why most senators, while needing to raise over seven thousand dollars a day to run for reelection, don't spend more time at neighborhood diners or soup kitchens. Similarly, the number of paid lobbyists and the scale of contributions to political action committees has spiraled upward for two decades.

Even with campaign finance reform aimed at plugging up some of the avenues of influence, big money will continue to dominate our elections and governing institutions. The result is a government primarily concerned with writing rules and administering regulations to serve the interests of its paying patrons. The power of the political contribution will continue to diminish the power of the ballot. And in the policy contests over the great issues of our day, concentrated wealth will emerge victorious almost all the time.

In this context, the estate tax is a very important issue. The estate tax does make a dent in the dynasties of wealth.[32] If the organized money that is now working to eliminate the tax succeeds, the distribution of wealth and power in our society will become more skewed. The result will be societal rules that are even more beneficial only to those who can pay.

CONCENTRATED WEALTH AND EQUALITY OF OPPORTUNITY

This concentration of political power directly and indirectly undermines equality of opportunity. The wealthy and powerful generally "privatize" their personal and family needs through private education, private ownership of books and learning tools, private clubs and recreation, private transportation, and so on. For those who are not born wealthy, however, opportunities depend on the existence of strong community and public institutions. The ladder of opportunity for America's middle class depends on strong and accessible public educational institutions, libraries, state parks, and municipal pools. And for America's poor, the ladder of opportunity also includes access to affordable health care, quality public transportation, and child care assistance.

During decades when the concentration of wealth is great, our society puts a greater priority on tax cuts and spending priorities that benefit the wealthy rather than on building the institutions of opportunity.[33] In the 1920s, after several decades of Progressive Era reforms aimed at improving the conditions of ordinary people, there was a widespread rollback of social reforms and public

investment. In a similar way, the 1980s and 1990s have witnessed the erosion of investment in equality of opportunity in education, home ownership, and small enterprise development, compared with that of the 1950s and 1960s.

During periods of less wealth inequality, our country has strengthened equality of opportunity, particularly for access to education for people of modest means. This is not only beneficial to the economy but a precondition for electoral democracy. Although our education system has many strong points, we are losing ground in ensuring affordable access for all. In 1965, the Pell grant, the largest federal program for lower-income students, covered 85 percent of the cost of four years at a public university. By 2000, it covered just 39 percent of the cost.

The current political and economic situation, shaped by the priorities of organized wealth, will not improve this picture. College costs have dramatically risen since the late 1970s and will continue to rise. State governments are raising tuition at community colleges and public universities. All of these will be additional obstacles for lower-income students seeking higher education. Those who enroll will endure distracting financial stresses, working long hours while in school and graduating with enormous personal and school debt burdens.

A society with widening disparities of wealth and power chooses other priorities over access to education for all. Historian of U.S. inequality Sam Pizzigati writes that "if we allow great wealth to accumulate in the pockets of a few, then great wealth can set our political agenda and shape our political culture—and the agenda and the culture that emerge will not welcome efforts to make America work for all Americans."[34]

The policy priorities of organized big money are not the same as the priorities of those who are unable to privatize their needs.

GROWING INEQUALITY IS BAD ECONOMIC POLICY

Too much concentrated wealth and power is bad for the economy because it undermines prosperity. Economists have tended to look narrowly at the impact of wealth inequality on economic

efficiency—and they have left it to the worldly philosophers to speculate on the social dangers of concentrated wealth. But a number of economic studies show how too much inequality of income and wealth can be a drag on economic growth. In a survey of academic research on the topic, Philippe Aghion summarizes: "Several studies have examined the impact of inequality upon economic growth. The picture they draw is impressively unambiguous, since they all suggest that greater inequality reduces the rate of growth."[35]

There are several reasons for this pattern. First, as discussed above, countries with high levels of inequality fail to invest adequately in education. Second, as discussed below, inequality leads to a breakdown of social cohesion, and in its most extreme form, to widespread social unrest and political instability.[36] Finally, too much concentrated wealth distorts the investment priorities and market decisions of the country at large, leaving lower- and moderate-income people without the incomes needed to stimulate the economy with widespread consumer spending.

For instance, inequalities of wealth and income backfire in the commercial marketplace. In the last two decades we've seen the emergence of a "Tiffany/Kmart" dichotomy, a two-tier consumer market. One consumer market is shaped to suit the particular tastes and dollars of the top 5 percent of wealth holders. The mass market appeals to the rest. But as the buying power of the middle class erodes, the whole economy is put at risk. The purchasing power of the super wealthy alone is not enough to propel our economy.

After the terrorist attacks and economic downturn of September 2001, several troubling economic trends were unmasked. Commentators expressed concern that the long-term impact of rising consumer debt and stagnant wages might slow our economic recovery. Lower- and middle-income Americans couldn't afford to continue to prime the pump of the U.S. economy with additional consumer borrowing, especially in the face of rising job layoffs. They were maxed out.

Historians have seen this before. In his history of the Depres-

sion and Second World War, *Freedom from Fear*, David Kennedy notes how the Hoover administration conducted an extensive survey of social trends on the eve of the Great Depression:

> As Hoover's investigators discovered, the increasing wealth of the 1920s flowed disproportionately to the owners of capital. Worker incomes were rising, but not at a rate that kept pace with the nation's growing industrial output. Without broadly distributed purchasing power, the engines of mass production would have no outlet and would eventually fall idle.[37]

Too much economic inequality undermines economic stability and growth, threatening prosperity for all.

INEQUALITY AND OUR CIVIC AND PUBLIC HEALTH

If too much inequality is bad for our democracy and economy, it is also harmful to the social fabric of a society that aspires toward fairness. British historian Arnold Toynbee analyzed the collapse of twenty-one past civilizations and determined that there were two common factors that led to their demise. The first was a concentration of wealth, and the second was inflexibility in the face of changing conditions.[38] Jeff Gates notes that concentrated wealth and societal rigidity are "two sides of the same coin." Concentrated ownership leads to inflexibility when what societies need is greater cooperation and adaptability.[39]

As our society pulls apart, there is a greater distance between haves and have nots, eroding society's social solidarity and reinforcing a sense that we are in very different realms. Our culture becomes more like an apartheid society, where haves and have nots no longer simply occupy opposite sides of the tracks but inhabit wholly different worlds. And the distance between these worlds has become so wide that it erodes any social sense that we are in this together.

Apartheid societies are unhealthy places to live, for the rich and everyone else. Public health researchers have shown how societies with wide disparities of wealth have poor health. Although it is unhealthy to live in an impoverished community, it is even

worse to live in communities with high levels of income and wealth disparities. Within the United States, counties and states with greater inequality, not absolute poverty, have the highest incidences of infant mortality, heart disease, cancer, and homicide. Regions with greater equality enjoy the opposite, longer life expectancies and less violent trauma.[40]

Why is it healthier to live in a community with less inequality? Inequality leads to a breakdown in the social solidarity that is necessary for public health. British medical researcher Richard Wilkerson argues that communities with less inequality have stronger "social cohesion," more cultural limits on unrestrained individual actions, and greater networks of mutual aid and caring. "The individualism and values of the market are restrained by a social morality." The existence of more social capital "lubricates the workings of the whole society and economy. There are fewer signs of antisocial aggressiveness, and society appears more caring."[41]

Nothing demonstrates the fragmentation of community in the United States more vividly than the rise in gated residential communities for the affluent and the simultaneous record numbers of people in prison. Some 9 million households now voluntarily live in gated residential communities and another 2 million people are involuntarily incarcerated.[42] More people than ever are living behind gates and walls with entrances patrolled by armed guards. This polarization disturbs the equilibrium of a democratic society. It is in no one's interest for the United States to become more like some of our South American neighbors, such as Brazil, with such extreme levels of inequality. What kind of nation do we want to become?

The "American experiment" has attempted to balance two competing values: economic liberty versus democracy and equality of opportunity. We want to create a prosperous society, a goal we have achieved for a significant percentage of the population. We also aspire to create a society in which there is equity, where the playing field is level and the runners all start at the same starting line.

As you look over the Forbes 400 list, contemplate what the in-

evitable multiplication of these large estates will mean for this country in the decades to come. If they are not interrupted by a significant transfer tax, these will become the political dynasties of tomorrow.

There is no possible way for the children, grandchildren, and great-grandchildren of the Forbes 400 to spend the income from these huge estates. Their dynastic wealth will grow and grow, and the accumulation of excessive power in the hands of a limited number poses a significant risk for our society.

DOES THE ESTATE TAX HAVE AN IMPACT?

Some might argue that if one of the goals of the estate tax is to reduce the concentration of wealth, it is not doing a very good job. After all, the growth in wealth concentration has been enormous and seemingly unchecked by the tax over time. Bruce Bartlett of the libertarian National Center for Policy Analysis observed that "wealth is probably more unequally distributed in the United States than in countries with no estate tax." He compared the maldistribution of wealth in the United States to four countries—Canada, New Zealand, Australia, and Israel—that don't have an estate tax and have lower levels of wealth inequality. He concludes that since the estate tax is ineffective, it should be scrapped.[43]

Wealth researcher Lisa Keister, however, points out that the wealth distribution in the United States would be much worse without the estate tax. In one simulation, she shows how the distribution of wealth would be different if the estate tax had remained as progressive as it was in the mid-1970s, when the top estate tax rate was 77 percent and exemptions were lower. Had this rate and exemption structure remained in place during the stock market explosion of the 1990s, it would have greatly reduced wealth inequality. Keister finds that the richest 1 percent would have held just 30 percent of the wealth in 1983, rather than the actual 34 percent of wealth they did possess. And, according to her model, the top 1 percent would have had 32 percent in 1998, rather than the actual 38 percent. The middle class, defined as households between the twentieth and sixtieth percentiles in

the distribution, would have had a 10 percent greater share of the wealth pie, rather than losing ground.[44]

In another scenario, Keister demonstrates that the concentration of wealth would have been much greater if the progressivity of the estate tax had been reduced. Under this scenario, the top 1 percent would have owned 37 percent of the nation's wealth in 1983 and 43 percent in 1998. Remember, the actual figures are that the top 1 percent owned 34 percent of the nation's wealth in 1983 and 38 percent in 1998.[45]

It is clear that the 2001 reforms of the estate tax will increase wealth inequality—and that complete repeal will further fuel greater concentrations of wealth. Indeed, the estate tax could be more effective in deterring wealth imbalances. We should strengthen the tax, not eliminate it.