How Do "Rich" People Make "Poor" People Richer?

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We enjoy reading the weekend Wall Street Journal especially the section entitled: "Mansions." Week after week there are stories and pictures about the purchase and sale of multimillion dollar homes around the world but especially in the United States. When you marvel at these beautiful estates that only 0.1% of the population can afford, you might begin to empathize with the periodic efforts to tax these millionaires because "it's not fair that they have all this money." No matter that these rich people pay 40% of all income taxes both at the federal and state level providing support to their local communities.

All those mansions are not "wished" into existence. They are built by professionals across the spectrum of all trades. From the architect who designs the structure to the tradesmen who knows how to make a silk purse out of a sow's ear, to the workmen who mix the cement or assemble the boards for the floor, these people are the beneficiaries of the "billionaires" who are accused of taking advantage of everyone else because of their wealth. Not only are politicians preaching higher taxes on income, but they are also coming up with ideas to confiscate affluence either through a wealth tax or a tax on all <u>unrealized</u> capital gains. Imagine having to pay a tax on your appreciated property even though you didn't sell it! Once such an idea becomes law, there is no telling how high that confiscation can go and there is no rolling it back.

The income tax was first introduced early in the twentieth century at an initial rate of 3%. By the end of WWII, the rate had risen to 92%! Fortunately, few people ever paid that rate due to various exemptions. As we have mentioned in the past, this idea of imposing a wealth tax has no history of success. France tried it a few years ago and the law was quickly rescinded. When the U.S. imposed a luxury tax on wealthy yacht owners, thousands of boat builders lost their jobs. How many building developments that have been denied by local boards have eliminated jobs for the workers who would have been employed to build those projects? Today, unemployment has dropped to a low of 3.6% and could go lower. Surging mortgage rates could short-circuit the housing boom that will result in financial troubles for homebuilders. Then the Fed will likely continue to push rates higher until there is some combination of lower inflation and higher unemployment. But the tradeoff is unacceptable: ask yourself if a 7% growth rate (4th quarter of 2021) and a 7% inflation rate is preferable to a 0% inflation rate and economic malaise and surging unemployment.

Americans across all income levels have never been wealthier. The booming property and stock markets over the past three years have provided the biggest boost to upward mobility. As they say, a rising tide lifts all boats. Taxing "wealthy" people is not the answer to continued American prosperity.

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