Wealthification in the United States and Europe

Political systems in many democratic countries are beset by governance problems, weak accountability and unsatisfactory economic performance. There are many roots to these challenges, but the "wealthification" of politics that I outline in my new Brookings Institution Press book, *Billionaires: Reflections on the Upper Crust*, is an important contributor.

The top one percent control around one-third of the assets in the United States and 40 percent around the world. According to *Forbes* magazine, there are 492 billionaires in America and they own more than $2 trillion. Europe, meanwhile, has 468 billionaires who have around $1.95 trillion. This includes 85 in Germany, 47 in the United Kingdom, 43 in France, 35 in Italy, and 26 in Spain.

In recent U.S. elections, billionaires have poured extensive resources into supporting their favored candidates and causes. In addition, wealthy individuals have bankrolled advocacy campaigns at the state level – for example, in support of same-sex marriage and marijuana legalization or in opposition to Obama's health care reform and higher taxes on the wealthy. Aided by friendly Supreme Court rulings and the rising cost of election campaigns, affluent people have discovered that they are in a strong position to influence policy responses to a variety of different issues.

Similar things are happening globally. Billionaires have run for office in Australia, Austria, France, Georgia, India, Italy, Lebanon, the Philippines, Russia, Thailand, Ukraine, the United Kingdom and the United States. Most of them have won. Oligarchs in Russia, so-called "princelings" in China and tycoons in many other countries are becoming politically active and affecting public policy.

Their political involvement raises important questions about excessive influence, especially in places where there is weak rule of law, overt corruption and limited opportunities for social or economic advancement. The activism of the super-rich is taking place against a backdrop of poor transparency, weak news coverage, accountability problems and performance challenges in political systems around the world. With the wealthification of politics, those in the upper echelon, many of whom hold policy viewpoints that differ significantly from those of the general population, have access to significant influence over the political process.

The influence of the super-wealthy has developed at a time when countervailing institutions, such as the news media and political parties, are weak, and this has made it difficult to restrain the power of the rich. Around the world, billionaires have purchased major news outlets and provided considerable funding for party organizations. The result has been a "Wild West" of political activism. With limited disclosure and poor transparency, the public has little access to information on how much is being spent to influence elections and how the super-wealthy are using their financial resources to shape public policy.

In a number of places, the power of the wealthy has led to tax policies that tilt unfairly toward the rich. In the United States, for example, tax laws have many exclusions that allow wealthy people to shield much, or in some cases even all, of their income from taxation and pass their resources onto heirs at low rates of taxation. A study by the Con-

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gressional Budget Office found that the top one percent of earners reaped 17 percent of the tax benefits from credits and deductions, and the top 20 percent got 50 percent of the overall benefits.

In looking at the U.S. tax code, the top tax deductions cost the federal government around $925 billion in revenue each year. This is almost as much as is collected by income taxes as a whole. Some of these deductions benefit a broad swath of people, while others help the wealthy disproportionately. According to the *Washington Post*, the largest exclusions include employer-provided health insurance (around $260 billion in tax savings), favorable treatment of dividends and capital gains ($160 billion), retirement savings ($140 billion), state and local taxes ($80 billion), mortgage interest ($70 billion), child tax credit ($60 billion), earned income tax credit ($60 billion), capital gains benefits from assets received following someone's death ($50 billion), charitable contributions ($40 billion), Social Security benefits ($35 billion), and carried interest ($17.4 billion).

Low capital gains taxes help the wealthy treat income earned through investment appreciation at lower rates than "earned income", such as salaries. Asset gains are subject to a 20 percent tax rate for assets held longer than six months, compared to a top rate of 39.6 percent if the money is treated as ordinary income. The Congressional Budget Office estimates that 70 percent of the financial gains derived from the favorable treatment of dividends and capital gains go to the top one percent of wage-earners, and 90 percent accrue to the top 20 percent. As a sign of the practical impact of this single provision, the tax advantages from this particular exclusion have been estimated to boost the after-tax income of the top one percent by five percent and that of the top 20 percent by two percent.

America also has policies regarding the tax deductibility of expenses for private and corporate jets that are more generous than elsewhere. U.S. tax law specifies that companies can write off the costs of corporate jets used for business purposes over a five-year period. This contrasts with the approach of the European Union regarding these vehicles. The United Kingdom, for example, has raised its taxes on private jets as part of EU proceedings that concluded British tax laws were overly generous. The Commission ordered the United Kingdom to raise its aircraft sales tax from zero to 20 percent.

Some countries address inequality issues through spending that promotes social and economic opportunity. Research by the Boston Consulting Group for the Sutton Trust in the United Kingdom found that "closing the educational attainment gap could add 4% to Gross Domestic Product."[1] A 2012 study by the Organisation for Economic Cooperation and Development found that so-called cash transfers have the greatest impact on reducing overall income inequality among the 34 member nations.

In general, the OECD reports that income concentration is lower when taxes and social benefit policies are fair. Nations that deploy progressive tax and spending policies are more likely to have lower income and asset inequality. Wealth distributions are subject to the effects of public policy, and countries that pay attention to the ramifications of their fiscal policies end up with fairer income patterns.

1 http://www.brookings.edu/research/opinions/2013/08/16-economic-case-social-mobility-reeves.