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A Blow for Income Equality

Nothing soaks the rich quite like a financial meltdown.

By Rich Lowry

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Why complain about the financial crisis? By liberalism's standards, it has been a swift sword of economic justice, working to equalize wealth more rapidly than any policy short of summary execution of the rich.

Why settle for raising tax rates on capital gains from 15 percent to 20 percent, when capital gains can be eliminated entirely? Why trifle with the tax treatment of compensation at hedge funds, when funds themselves can disappear into oblivion? Why increase the estate tax, when people's fortunes can be reduced by half in a matter of months — without the inconvenience of waiting for anyone to die?

America experienced a financial decapitation in 2008. We saw \$11 trillion in wealth disappear, an astonishing 18 percent. The destroyed wealth equals the combined annual output of Germany, Japan, and the U.K., according to the *Wall Street Journal*. And there's nothing to soak the rich quite like a financial meltdown.

Forbes magazine found only 793 billionaires around the world this year, compared with 1,125 a year ago. The collective net worth of the world's remaining billionaires is \$2.4 trillion, down \$2 trillion during the past year. A few more years at that pace and they'd be bust entirely.

Obama economic guru Larry Summers explained why the downturn has hit the wealthy particularly hard in a recent speech. He noted that the incomes of the top 1 percent of earners had been soaring because of "rising asset prices and the fact that financial-sector profits exploded to the point to where they represented 40 percent of all corporate profits in 2006."

Summers's remarks carried an unmistakable undertone — problem solved. The consulting firm Oliver Wyman estimates the rich have lost a quarter of their wealth in the crisis.

It is ever so in economic contractions. Cato Institute economist Alan Reynolds has examined the data and found that the top 1 percent took disproportionate hits in every recession but one (1981–82) in the postwar period. The golden age of economic equalization was the Great Depression and World War II, prompting the question of what kind of catastrophe it would take to begin to significantly level out wealth after the boom times of the past 25 years. Well, now we know.

Of course, the economic carnage hasn't been limited to the top. Ordinary people have pensions and 401(k)s invested in the markets; they own homes whose values have plummeted; and they have lost their jobs. Their suffering is the tragedy of this trickledown bust.

But if, in the abstract, liberals were given a deal in which economic inequality was reduced from its levels of the 1990s and 2000s, but at the price of 8.5 percent unemployment, wouldn't they take it? Isn't that the basic bargain embraced in the European model they so adore? Less wealth, less inequality, less employment — recession-era America already has some of the characteristics of a European social democracy.

This is the deeper way in which the Obama administration doesn't want to let a crisis go to waste. It wants a new economy, built on "sustainable" growth and more widely shared wealth. The assumption is that with higher taxes and more regulation, the administration can foster growth without too many people getting unduly rich.

The risk is putting growth on a permanently lower trajectory and creating a version of Winston Churchill's socialism, which he defined as the equal sharing of miseries. The last Democratic president, Bill Clinton, campaigned slamming the greed and inequality of the Reagan years, but by the end of his administration was telling advisers that rapid economic growth was the best of all social programs. Barack Obama doesn't want to make such a capitulation to the market, but instead to tame and fine-tune it in accord with his social ends.

Creating a new capitalism is a genuinely audacious goal. Give Obama this: When it comes to equalizing wealth, the financial crisis has given him a head start.

— *Rich Lowry is the editor of National Review.*

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