A letter to Barack Obama

by Jack_Kemp

Dear Barack (cc: Hillary Clinton, John Edwards and all Democrats),

We've only met a few times, but we went to the same college, Occidental in Los Angeles. I graduated 50 years ago and went into the NFL, while decades later you ended up graduating from Columbia and Harvard and practicing law in Illinois.

Like so many on both sides of the political aisle, I appreciated your speech to the 2004 convention and your wonderful message of racial, ethnic and political reconciliation. Now, in the interest of good economic policy for America and in the interest of combating poverty and creating wealth among people of color, please don't treat capital gains (or dividends) as ordinary income. They're not, and here's why.

First, treating capital gains as ordinary income and taxing them at the same level, i.e. 36 percent or 39 percent, won't hurt the rich; it'll hurt the poor who want to get rich.

As you know, a person can't get rich on wages. He or she has to be able to earn, save, invest, reinvest and build an estate that can be passed on to other family members. Taxing capital gains as ordinary income is really counterproductive to a nation that wants to generate wealth, spark innovation, expand its technology, create jobs and combat poverty.

Our mutual friend, Earl Graves of Black Enterprise Magazine, said once, "Civil rights in America will never be fully ours until we not only stay in any hotel but have access to the capital to buy the hotel, not only eat at any lunch counter but have the capital to buy the diner."

For just a moment consider the unfortunate reality that the vast majority (more than 95 percent) of American wealth in stocks, bonds, real estate, homes and estates are held in the hand of white folks. The great fortunes generated by the Carnegies, Rockefellers, Mellons and Guggenheims were created when taxes were quite low and when there was no capital gains tax, no estate tax and no tax on dividends.

Now that people of color are getting their rightful shot at greater opportunities for education, advancement in the professional world and manifesting their entrepreneurial talents, we tax labor heavily and capital excessively.

Imagine this scenario: When you earn a dollar and spend it, your income is taxed but once. If you save it,

you're taxed again. If you invest those savings, you face a capital gains tax that is unindexed (i.e., a fourth tax). Corporate income is taxed over 40 percent at the margin, and consumers end up paying for that, too. Dividends are taxed at 15 percent, and when you die (after 2011) your estate will be taxed at well over 50 percent.

Yes, it helps pay for our social welfare safety net, defend our shores, educate our children and clean up the environment, all of which are laudable goals. But my idea is that we could do a whole lot better if we taxed all income only once. Tax all income at a flat (and fair) tax rate of say 19 percent or 20 percent, with large exemptions for the poor and working poor so they can rise out of poverty. We should also increase the earned-income tax credit in dramatic fashion.

Another lesson of taxation: The incidence of taxation is different from the burden. Placing a tax too high on capital formation puts the burden of taxation on the poor, the consumer and the public sector, as revenues would fall due to a slowing economy and a rise in unemployment.

Capital gains is a voluntary tax in that if you never sell an asset, you would never have to pay the tax. People with assets would just hold on to them, borrow against them and then go out and invest, but in so doing keep all the wealth in the same hands.

During four years of working as HUD secretary with low-income people from Cabrini Green in Chicago to Nickerson Gardens in Watts to Richard Allen in North Philly, among others, I never met anyone in public housing or on welfare or in the food-stamp program who didn't aspire to own a home, have a job, educate their kids and move up the ladder we call the American dream and what is in reality the Asian, Latino, African, European and indeed universal dream.

The genius of entrepreneurial capitalism is that anyone with a good idea can get rich and by doing so benefit our society. Think Gates, Ellison, Jobs, those young guys from Google, Larry Page and Sergey Brin. Yes, Bob Johnson, the creator of BET and Oprah Winfrey have gotten fabulously wealthy, but they're the exception, not the rule, and that's unfortunate for all of us.

Rather than redistribution of income, let's democratize capitalism and make access to capital a national goal. Instead of studying poverty, let's study how people get out of poverty and how to help the poor get richer.

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