Breaks for billionaires?

by the St. Louis Post-Dispatch

Private equity and hedge fund executives limousined to Capitol Hill last week to explain why they should be taxed less than ordinary Americans. Senators, their campaign funds fattened by Wall Street, made sympathetic noises.

Executives who make millions - sometimes hundreds of millions - of dollars a year argue that they should be taxed at lower rates than the department heads and factory workers and secretaries and chauffeurs who work for them.

It follows, then, that they believe working families also must carry a proportionately heavier burden for financing the services government provides: roads, schools, air controllers, health care for children and old people, patrolling our borders, safeguarding our foods and drugs, gathering intelligence against terrorists, conducting diplomacy, fighting wars, paying the interest on our national debt.

So far, the investment giants of the private equity and hedge fund world have got their way, paying about 15 percent in taxes on their earnings. The people who own them likewise pay a tax rate of about 15 percent on their personal earnings, which often are counted as capital gains. In contrast, a typical working couple pays 25 percent in taxes on income exceding $61,000 per year.

Proposals in Congress would raise the rate on some of those partnerships to the 35 percent rate most corporations pay. Individuals also would be taxed at income tax rates of up to 35 percent on their hedge-fund earnings.

Kenneth Griffin made more than $1 billion last year as head of the Citadel Investment Group, a Chicago hedge fund. "I am proud to be an American," he recently told The New York Times. "But if the tax became too high, as a matter of principle I would not be working this hard."

If Griffin were to be taxed at the top federal income tax bracket instead of the low capital gains rate, his take-home pay last year would have been a bit more than $650 million (before state taxes). If Congress raised the top income tax rate back to 70 percent, where it sat in the 1970s, he'd still pocket more than $300 million. As a matter of principle, would Griffin decline to exert himself for $300 million?

Hedge fund and private equity executives have warned senators that woe would befall the nation if their tax rates reflected those of other Americans - even including, we must point out, some very wealthy Americans.

"There will be deals that don't get done," said Bruce Rosenbloom of the Carlyle Group private equity firm in congressional testimony. "There will be entrepreneurs that won't get funded and turnarounds that won't get undertaken."

If so - and there's probably some truth to it - that would not be such a bad thing. Private equity firms operate largely by acquiring companies they hope to sell off later at a higher price. The process can be hugely profitable for the private equity owners, but it often proves terribly wrenching for the employees of the companies themselves.

Last week, The Wall Street Journal told the tale of Travelport Ltd., a travel booking firm in Colorado. The Blackstone Group, one of the world's largest private equity companies, and a venture capital firm bought Traveleport last August and quickly laid off 10 percent of the staff. The new owners then loaded up Travelport with debt to finance the deal and paid themselves a $1 billion dividend - with a "b" - an amount equal to their entire investment in the firm.

That leaves Travelport burdened with massive debt payments - and laid-off former employees losing their homes.

Such high-level financial manipulation does not make America stronger. At the very least, its practitioners should not be entitled to special tax breaks. Congress ought to move to correct this unjustifiable unfairness.

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