THE WEALTH OF THE NATION, Is It In Good Hands?

by Edward Dodson, Cherry Hill, NJ

Guided by Henry George's insights into the operation of political economy, we understand that a tendency exists for wealth to become increasingly concentrated in the hands of fewer and fewer individuals. We sense this is occurring in the United States, despite a long history of programs to provide poorer citizens with a safety net. As each year passes, the number of people who slide in the categorization of the "working poor" increases. A key reason for their deteriorating financial circumstance is, of course, the cost of housing. Renters are particularly at risk, but many homeowners have a difficult time finding the cash to maintain their home and to pay property taxes.

Analysts who track the amount of savings by the U.S. population report that the personal savings rate has fallen to less than 1 percent of disposable income. This compares to a savings rate of over 10 percent in countries such as France, Italy or Germany.

While it is certainly true that all too many Americans spend all or more than they receive as income, borrowing and extending payments on their debt over long periods of time, it is also true that many of us are the beneficiaries of landed wealth. We know this is not as it should be, but this broad if moderate depth of individual wealth held in land value seems to keep the U.S. economy from imploding. This is a complex relationship, to be sure. The increases in residential land values are welcomed by those nearing or in retirement. If they are living on a relatively low, fixed income (e.g., on Social Security benefits), they can increase their income by exchanging the equity they have in their house and land by entering into a "reverse mortgage" arrangement. Or, they can sell their property and move to a lower cost location.

Economists estimate that the average household net worth in the United States is now over $380,000, an increase of $100,000 in a decade. Of course, the bottom 10 percent of all households have no net worth at all. A recent Wall Street Journal report referred to research by Dartmouth College economics professor Jonathan Skinner which indicates "roughly one-third of Americans arrive at retirement unprepared and are forced to cut their consumption by as much as 30% to survive."

We are deep into a period of great economic uncertainty. The current administration continues to believe that deep cuts in the marginal tax rates of the wealthiest income recipients will achieve a Laffer-like supply-side increase in the tax base. As we have seen, the increased disposable incomes for the top 10 percent of the population has gone into real estate and the stock market. Wealthy Americans are not even (continued on page 8)

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taking much of this income and "investing" it in U.S. government securities. They are leaving this up to foreign investors. As the government's need continues to issue more and more debt, the pressure on interest rates to rise is inevitable.

The annual interest payments required on $8 trillion of debt at a rate of 5 percent is $400 billion. At some point, reality must set in: the Bush economic team must face up to the need to increase revenue from taxation. The most likely measure they will endorse is some form of national sales tax or a value-added tax.

So, I ask again: Is the wealth of the nation in good hands? [Ed Dodson may be emailed at ejdodson@comcast.net] <<