Adams Institute
FOR THE PRESERVATION
OF THE DEMOCRATIC-
REPUBLICAN MODEL OF
GOVERNMENT

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Warren Buffett
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Dear Mr. Buffett:

During the 2012 campaign cycle, you deplored the fact that your tax rate was lower than that of your secretary, Debbie Bosanek. Refuting the justification given by then-Speaker John Boehner, you blamed Congress for the absurd state of affairs still persisting in America: Billionaires are taxed at lower rates than ordinary middle-class households.

You not only reiterated your opinion in a 2019 interview, stating: "*The wealthy are definitely undertaxed relative to the general population.*" You also then asserted that wealth taxes, when they come, would be unlikely to trigger the apocalyptic capital exodus that their opponents routinely prognosticate.

We agree on all the above, though it's worth considering whether the self-identification and self-imposed exile of anyone who prizes their fortunes above their country, were that instigated by a well-designed wealth tax, wouldn't be more a feature than a bug. At any rate, your principle on the matter echoes Theodore Roosevelt's 1906 annual message to Congress:

> *The man of great wealth owes a peculiar obligation to the State, because he derives special advantages from the mere existence of government. Not only should he recognize this obligation in the way he leads his daily life and in the way he earns and spends his money, but it should also be recognized by the way in which he pays for the protection the State gives him.*

There's no question that our tax system is rigged to the point of absurdity. It excessively favors capital accumulation – whether merited or unmerited, whether derived from innovation or predation – and penalizes hard work. As you've already indicated, reform is necessary.

But should *wealth taxes* be adopted? Would they be constitutional? How should they be designed? On these points, reasonable minds can and do differ. The answers naturally depend upon their purposes, and not all purposes are equal. If wealth taxes were conceived just to raise revenue, almost any reasonably enforceable plan would suffice.

We submit that wealth taxes can and should advance a higher purpose than merely raising revenues, and that is reestablishing our middle class. For that object, the primary goal of wealth taxes would be creating structural market incentives to guarantee our middle class its rightful share of not less than 50% of national prosperity, the revenues themselves being only a secondary effect. Today, the middling share stands at about 26%.

By this approach, we would not seek to palliate the effects of extreme wealth concentration through government-administered *wealth redistribution* programs. Our goal is instead to induce voluntary and peaceful *wealth de-concentration*, conveyed through market actors, to reverse the grotesque wealth concentration which produces the middling insecurity that compels ordinary Americans to pursue relief from increasingly socialist and authoritarian leaders in the first place.

In other words, we would deploy wealth taxes for the purpose of reestablishing an *independent middle class*, not merely sustaining a *dependent underclass*. If we did this right, the taxpayer base would grow while the expenses of government and thus the tax burden would shrink to the point that ordinary household taxes could be reduced, perhaps even to the point that corporate taxes could be eliminated altogether.

This idea agrees with several statements you've made reflecting that deep perception of human nature which has made you one of the most successful and admired people in America.

That wealth taxes should be structured principally to restore our middle class relates to a problem you noted at last year's Berkshire Hathaway annual meeting, one which has grown in proportion to America's extreme wealth concentration: America's extreme political polarization. Describing this crisis as "*The one development that I really do think is actually important but I don't know any way to do anything about it*," you cited the growing tribalism in American society, what your colleague Charlie Munger said has led to "*insane rightists and insane leftists*."

In that same discussion you implied the causes, which can be summed up in one question: ***How's the middle class doing?*** You said the last time you recall this much polarization was during FDR's administration, but that it had subsided by Eisenhower's. This makes total sense. Authoritarian demagogues gained so much traction after the 1929 crash because extremist politicians seemed to be the only ones offering solutions appealing to the distressed multitudes. It was not until after 1945 that the middle class as we know it emerged, its moderate regime lasting for as long as prosperity was broadly shared after the Second World War.

As you noted, differences of religion and opinion always exist. But a common prosperity, when touching upon most households, sedates the latent causes of faction. When the economic sedative is removed and pessimism drives out optimism, every source of political antagonism is noticed and inflamed until all intelligent discourse is swallowed by partisanship and ideology.

We needn't travel all the way back to ancient Rome to recount how middling insecurity fueled the bloody tournament of demagogues terminating that republic in the monarchy of Augustus. We need go no further than the Founding Fathers of our own republic for assurance that legitimate self-government depends upon the broad diffusion of property.

This is why John Adams said "*Property monopolized, or in the Possession of a Few is a Curse to Mankind. We should preserve not an Absolute Equality – this is unnecessary, but preserve all from extreme Poverty, and all others from extravagant Riches.*" And why Thomas Jefferson said "*Legislators cannot invent too many devices for subdividing property.*" And why Noah Webster said "*The basis of a democratic and a republican form of government, iz, a fundamental law, favoring … a general distribution of property.*"

In nations no less than businesses, bad outcomes are attributable to bad incentives. You must know this as well as anyone, considering how many questions you've fielded at Berkshire Hathaway stockholder meetings on the topic of executive compensation. And as you said at the 2006 meeting, "*It's not rocket science*": If we want do something about America's economic outcomes, we need to do something about the incentives governing America's top households. Given current economic realities, the only practical way to achieve this on the national scale is through federal household wealth taxation.

Because such taxes must be uniform to nullify geographic arbitrage, they must be federal. As they must withstand Apportionment Clause attacks and the vicissitudes of ordinary politics, they must be constitutional. This lays out one path to adopt wealth taxes creating market incentives of sufficient magnitude for the purposes enunciated: a federal constitutional amendment.

We therefore propose a constitutional amendment capping household wealth at a prescribed multiple of the national median household net worth such that, ***in order to enjoy any future gains, covered households must utilize their market power to raise the median as their outcomes would rise and fall lockstep in mathematical proportion thereto***.

Unlike conventional wealth taxes which are assessed solely for revenue-raising purposes, our objective is to encourage market actors to voluntarily de-concentrate wealth, thereby scaling capitalism's own device of the management incentive plan from the level of enterprise to nation. The initial median-top wealth ratio would be 10,000:1 (subject to periodic adjustment until the optimal ratio is discovered), implying an initial wealth cap of approximately $1.43 billion (based on last 3-year average reported national median), a limit presently surpassed by around 640 American households having an aggregate net worth of $4 trillion. This creates a powerful market incentive: at a 10,000:1 ratio, every $1 gain to the median increases the wealth cap by $10,000; every $10,000 by $100 million, every $100,000 by $1 billion.

The amendment would grandfather preexisting fortunes – including yours – to the extent located within American territory and provided their owners are not convicted of certain crimes, adding both repatriation and good behavior incentives to the underlying market incentive. To incentivize ratification, ***the amendment would distribute all revenues raised by ratio enforcement in equal shares to each State which timely ratifies it, bypassing any Congressional inaction via Article V convention***. The States are free use their respective shares however they wish.

If this seems radical at first glance, know that this wouldn't be the first time someone proposed a constitutional amendment to divert luxury tax revenues to the States: Thomas Jefferson suggested one in his Second Inaugural Address.

Also know that this plan adheres to maxims you've previously mentioned to Berkshire Hathaway stockholders. The first is that incentives exhibit a "*parity of concern*" between management and stakeholders (2003 meeting). It satisfies that criteria via median-top wealth tethering, since top outcomes would float upon those of the middle. Second, you noted that managers should be compensated only for outcomes "*under their control*" (2006 meeting). The amendment seeks precisely that, by applying the tax only to those households that collectively exert market power, anchoring their destinies to the middle class, their prospects for future gain limited only to the extent of their genius and efficiency in raising the national median.

We're not asking for money. All we're asking for is your agreement with this plan. To combat the crisis now facing our country, your good word is worth more than your immense wealth.

Sincerely,

Tim Ferguson

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