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Dividend Envy

A government which robs Peter to pay Paul can always count on Paul's support.
–George Bernard Shaw

Mine's bigger. –Eric Stratton, Animal House

I've got to stop listening to the radio. It's not good for my blood pressure. Last evening on the way home, I tuned into a debate over the Republican proposed tax cut. The guest was a representative of a group called Citizens for Tax Justice, I believe. Caller after caller railed on about the proposed dividend tax cut as a tax cut for the rich, and a loophole for owners of corporations eager to pay themselves tax-free income. The guest was absolutely giddy with the callers, gushing fabrication that would have made most televangelists blush.

What fascinated me was the level of vitriol most people had for those who had achieved greater financial success than they had. One young woman's voice trembled with rage proposing that most of the wealthy got that way because of luck (being born into the right family) rather than through effort (she didn't mean it, Mr. Gates).

OK, so what's with this dividend business anyway. Economists have long criticized the double taxation of dividends, once at the corporate level and again when paid out to shareholders, as an incentive for corporate mismanagement. The criticism reflects the concern that since paying dividends is discouraged, corporations instead buy back their own stock (funded by debt), emphasize speculative projects to boost earnings, and manipulate their numbers to show profits, all in an effort to make their stock more attractive to investors. Sound vaguely familiar? Warren Buffet said it best, "you can't fake a dividend". So far this sounds pretty reasonable, but there must be more you say.

What about these fat cat corporate owners who want the double taxation eliminated so that they can make even more money. This "loophole" already exists. It's called a Subchapter S corporation ("S" corporation). This election allows profits to flow directly to the owners of these corporations *without taxation* at the corporate level. The maximum allowable shareholders in an "S" corporation though is 75. Big companies with many shareholders must be regular, or "C" corporations. So, small corporations with few shareholders (fat cats) already have tax advantages, big corporations with many shareholders (skinny cats) don't.

Yeah, but what about these rich guys that own stocks. Why should they get a tax break? 51% of current retirees own individual stocks. 75% of all Americans own corporate stock either directly, or indirectly through mutual funds (so much for the misleading argument that this change benefits only the "richest 10%").

This doesn't seem rational you say. Why would someone not want these benefits?

I got to thinking about that and dug up a study I saw last year. It was conducted by two British researchers, Daniel Zizzo of Oxford University and Andrew Oswald of Warwick University. These two guys set out to find out how deep envy is rooted in the human psyche. They conducted a series of experiments with groups of four subjects who were each given cash with which to gamble. During the experiment, two of the four were arbitrarily awarded additional cash. Although no subjects were allowed to communicate with each other, they could see each other's winnings on their own computer screen. At the end of the session, each person was allowed to keep his money with one proviso; before leaving each could spend some of his cash to reduce the winnings of others. **Almost two-thirds of the participants spent their own money to reduce the winnings of others with most spending about 25% of their own money to do it**. **About half of all the winnings were eliminated by subjects, with the wealthiest ones the most likely targeted.**

I'd like to believe that groups like the Citizens for Tax Justice are on the side of the little guy, and they may be - just as long as the little guy isn't any bigger than they are.