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Article

"The wealth tax reduces income inequality": Seven questions to Stefan Bach

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Dr. Stefan Bach, Research Associate
in the Department of Public Economics
at DIW Berlin

SEVEN QUESTIONS TO STEFAN BACH

»The Wealth Tax Reduces Income Inequality«

1. Dr. Bach, what is the real net worth of German households and how is this wealth distributed? German households have a real net worth of 8.6 trillion euros. This massive wealth is very highly concentrated and is equivalent to around two and a half times the country's GDP. We estimate that the richest one percent of the population own 32 percent of total assets and the wealthiest 0.1 percent even own as much as 16 percent.
2. What sort of revenue would we be looking at if very high assets were to be subject to a wealth tax? We developed various wealth tax scenarios with high personal allowances of at least one million euros. These scenarios show revenue from wealth tax to the tune of 10 to 20 billion euros per annum, depending on how the tax is levied. According to the wealth tax scenarios we examined, the richest one percent is taxed and, within this one percent, over 80 percent of the tax revenue is concentrated among the wealthiest 0.1 percent.
3. What are the pros and cons of a wealth tax? One advantage of a wealth tax is that it can specifically target the top income bracket. The downside of this approach is that these individuals have substantial influence over economic life through their use of factors of production. Consequently, if these individuals respond to a wealth tax by adopting tax avoidance strategies or choosing to invest abroad instead of in Germany, for instance, this could certainly have a negative impact on the economy.
4. Would a wealth tax reduce inequality in Germany? Since wealth tax is levied on current income, logically, it has an impact on actual income. Income inequality would be reduced slightly because, although the tax only applies to a very small number of taxpayers, those affected would be the extremely wealthy.
5. Not only a wealth tax but also an inheritance tax would target high assets. Which of these two taxes is fairer? Many see the inheritance tax as the fairer of the two because current assets are not affected and an individual's wealth is only taxed at the end of his or her life when the assets are transferred to the next generation. A wealth tax, in contrast, is levied on current assets. This has the advantage of a lower overall tax burden, whereas inheritance tax erodes economic substance and has a certain impact on liquidity. Moreover, among the wider population, inheritance tax is the less popular, whereas a greater number of people are in favor of a wealth tax.
6. What is the reason for this? Inheritance tax relates to the rather sensitive context of old age and death among family members. This could be the reason why inheritance tax is generally relatively unpopular, although the high personal allowances actually mean that the majority of people would never even come close to having to pay inheritance tax. With a wealth tax, on the other hand, it is clear from the outset that only very wealthy households will have to pay. People obviously have considerably fewer reservations on this front, at least according to surveys.
7. In your opinion, what is the chance of a wealth tax being a politically viable option in Germany? The wealth tax is very controversial. For the economy, it is like a red rag to a bull and is a risky option, particularly for German small and medium-sized enterprises. On the other hand, the German political parties, *Die Linke*, or the Left, and the Social Democrats as well as many members of the Greens, are in favor of introducing a wealth tax to stem the increasing concentration of wealth. Another possibility, of course, is to opt for a middle way by incorporating certain elements of a wealth tax into the current taxation on high income since it is often not possible to accurately measure high income. Bearing this in mind, a moderate wealth tax would certainly be another means of imposing higher taxes on the richer members of the population.

Interview by Erich Wittenberg



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