

Eichengreen, Barry

Article

Addressing Inequality: The Wealth Tax

Intereconomics

Suggested Citation: Eichengreen, Barry (2019) : Addressing Inequality: The Wealth Tax, Intereconomics, ISSN 1613-964X, Springer, Heidelberg, Vol. 54, Iss. 6, pp. 391-392, <https://doi.org/10.1007/s10272-019-0858-4>

This Version is available at:

<https://hdl.handle.net/10419/213249>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Addressing Inequality: The Wealth Tax

The United States has never had a wealth tax. Now this possibility has emerged as a defining issue of the 2020 presidential campaign. Senator Elizabeth Warren, one of the leading candidates for the Democratic Party nomination, has made taxing wealth a signature issue of her campaign. Her proposal is crafted in part by two University of California, Berkeley professors, Emmanuel Saez and Gabriel Zucman. Saez and Zucman have similarly made the idea of a wealth tax the centerpiece of their new book, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay*.

It's not simply that wealth taxes have the support of prominent politicians and respected public finance economists. More fundamentally, there is an awareness that America has an inequality problem. The Princeton economists Anne Case and Angus Deaton, in another remarkable new book, *Deaths of Despair*, show that this inequality has devastating personal consequences for those at the bottom of the income distribution in particular.

To date, most discussion has focused on the distribution of income rather than the distribution of wealth. Economists have a tendency to look under this lamppost because that is where the data are. This is partly because incomes are reported to the tax authorities on a regular basis. And partly because the illiquid, intangible, irregularly traded assets that comprise a substantial share of the wealth of the richest are difficult to value.

A number of factors have now contributed to the shift of focus. First, there is the extraordinary wealth accumulated by the richest Americans, many of them recently minted high-tech entrepreneurs: Jeff Bezos's \$109 billion, Bill Gate's \$107 billion, Mark Zuckerberg's \$72 billion, Elon Musk's \$24 billion. According to the Congressional Budget Office, the top 10% of families hold more than three-fourths of all wealth in the United States.

Moreover, wealth inequality is rising. Saez and Zucman estimate that the wealth share of the richest 0.1% has nearly tripled, to more than 20%, since the late 1970s, while the wealth share of the bottom 90% has fallen from 35% to 25%.

In addition, wealth as well as the social and economic advantage it confers are passed down through the generations. Federal taxation of inheritances kicks in only when estates exceed \$11.4 million. Once upon a time, it could be argued that wealth inequality was not a problem, since the United States was a country of high social mobility – since today's poor had a fair chance of becoming tomorrow's wealthy. But Raj Chetty and his collaborators have shown that intergenerational mobility is in decline. The recent college admission scandal, in which it was revealed that wealthy parents were paying as much as \$500,000 for fraudulent credentials needed for their children to gain admission to universities such as Stanford and Yale, reinforces this view that great wealth commands great advantage.

Then there is the argument that the wealthy are able to shape political outcomes in their favor. Examples include the Koch brothers, Charles and David, who have generously funded a network of influential libertarian organizations, and Robert Mercer, the single largest donor in the 2016 US president race.

Finally, there are new pressures for social spending, on inter alia universal health insurance and universal child care, the cost of which wealth tax could help to defray. Senator Warren estimates that her proposed 2% annual tax on the net worth of households with between \$40 million and \$1 billion, together with a 1% surcharge on billionaires, would raise \$2.76 trillion over ten years. She suggests that this money could be put to better use than paying for the billionaires' yachts and funding their offspring's inheritances.

Barry Eichengreen, University of California, Berkeley, USA.

But proposals for a wealth tax face both economic and political objections. These start with mundane administrative problems, such as how to value a company that has not yet gone public or art that has been in the family for generations. Wealth-tax proponents suggest that taxpayers can be deterred from underreporting the value of such assets if the government is given the option of purchasing them at the reported price. However, it is hard to imagine the US government employing an army of fine art appraisers when the Internal Revenue Service is incapable even of retaining an adequate number of plain-vanilla tax auditors.,

A related problem is taxpayer flight. Saez and Zucman suggest that this danger is exaggerated – that few people are likely to change their country of residence in response to an annual wealth levy of 2% or 3%. Warren notes further that the US taxes citizens on their global income regardless of where they reside, so that relocation is not an effective means of evasion. She proposes levying a 40% ‘exit tax’ on the assets of individuals worth more than \$50 million who renounce their citizenship.

Still, there are likely a variety of ways to evade taxation. Individuals modestly above the taxable threshold could divide their assets with their grown children sooner rather than later. They could donate to philanthropies that espouse their political values, bringing their wealth below taxable levels without diminishing their sway over public affairs. They could consume, since a dollar spent on consumption rather than invested is immediately free of this form of taxation. If nothing else, a wealth tax would be good for the luxury goods industry.

These are all reasons for suspecting that a wealth tax is unlikely to yield \$2.76 trillion of new revenue over ten years. And even if it does, this will go only a small way toward financing programs like universal health care, which Warren herself prices out at \$20.5 trillion over a decade.

Politically, the challenges are, if anything, even more daunting. Whether a federal wealth tax would be judged constitutional by the Supreme Court is uncertain. The question applies with even greater force to Warren’s proposed exit tax, which might be deemed to violate the ‘takings clause’ of the Fifth Amendment prohibiting the federal government from taking private property for public purposes without just compensation. A candidate on the left advancing a wealth tax would be attacked by the right for engaging in class warfare. A wealth tax may appeal to left-leaning progressive voters, but it is not clear that the apocryphal median voter is on board with the idea.

Commentators swayed by these objections – but nonetheless concerned about wealth and income inequality – have suggested tightening existing income tax rules and enforcement rather than creating an entire new fiscal bureaucracy. Forms of income currently enjoying concessionary tax treatment, such as carried interest (funds paid to investment managers in excess of the amount that the manager contributes to the partnership), could be taxed as ordinary income – that is to say, at higher rates. Taxes on wealth could be raised at least modestly within the current framework by increasing estate tax rates and lowering the taxable threshold.

What is the likely outcome? The author of next year’s Letter from America, written in the aftermath of the 2020 elections, will be in a better position to answer this question.