# Wealth taxes have moved up the political agenda

*Some economists are reconsidering their aversion to levies on large fortunes*

The Economist, Oct 3rd 2019

Five years ago Thomas Piketty's "Capital in the Twenty-First Century", a weighty analysis of rising inequality, flew off shelves and ignited fiery debate. Fans and detractors alike tended to agree on one thing, at least: its proposal to fix inequality—a tax on wealth—was a dud. A half-decade later the mood has shifted. Several candidates for the Democratic presidential nomination promise to tax wealth; Bernie Sanders recently announced a plan to tax fortunes of more than $32m at 1% per year, and those larger than $10bn at 8%. In his latest doorstopper, "Capital and Ideology", currently available only in French, Mr Piketty suggests taxing the wealth of billionaires at up to 90%. Few economists go so far. But more are now arguing that wealth taxes need not slow growth.

The shifting political climate is not hard to explain: taxes on wealth are popular. An analysis of recent survey evidence, for example, found that Americans favour such levies, especially on inheritance. And the case for taxing wealth has become easier to make. Emmanuel Saez and Gabriel Zucman of the University of California, Berkeley, find that the top 0.1% of taxpayers accounted for about 20% of American wealth in 2012, up from 7% of wealth in 1978 and close to levels last seen in 1929. The vast fortunes of the very rich—for example the more than $100bn controlled by Jeff Bezos, the founder and boss of Amazon—make juicy targets, too, for politicians seeking to fund new spending.

Economists have long been hostile to wealth taxes. But not Mr Piketty, Mr Saez or Mr Zucman. Mr Piketty based his case on the argument that concentrated wealth leads to concentration of political power, which undermines democracy. Mr Saez and Mr Zucman agree, and cite other concerns. In a recent paper, for instance, they note that in America the ratio of household wealth to national income has nearly doubled over the past 40 years, mostly because of the rising value of assets. Higher asset values could mean that firms are becoming more efficient—or it could reflect economic sclerosis. Property values could be rising because regulations make it difficult to build, for instance, and higher stock prices could be a sign that markets are becoming less competitive, and profits thus easier to come by. Taxing and redistributing wealth, then, could be a justified response to misfiring markets.

Other economists are warming to the idea. In a new paper* published by the National Bureau of Economic Research, a team of five economists aims squarely at the standard economic argument against wealth taxes. Today's wealth is yesterday's income, that reasoning goes, so wealth taxes are bad because they discourage income-generating activities, such as work and investment. Taxes on capital in particular should be spared, because investment is an input into future growth. Taxes that discourage investment mean less output today and a smaller economy tomorrow. In some economic models the optimal tax on capital is a whopping 0%.

But these models often assume that one investment is as good as the next. In practice, say the authors of the new paper, that is far from true. Some people stash their money in low-yield government bonds; others fund startups that become trillion-dollar companies. Shifting the burden of tax from capital income to wealth, they argue, would reward investors capable of achieving outsize returns on their investments, and shrink the fortunes of those unwilling or unable to put their lucre to productive use. Heirs would feel pressure to use their wealth or lose it. Entrepreneurs accustomed to achieving double-digit returns would scarcely notice a modest wealth tax. Designed well, the authors reckon, it could reduce inequality while raising productivity.

The authors' use-it-or-lose-it approach to wealth taxation has some similarities with arguments for taxes on land values (which this newspaper favours). Henry George, a 19th-century American journalist, became the Thomas Piketty of his day by campaigning for such levies. The rents earned by wealthy landowners derive in part from improvements they make to the land, he argued, but also from land's scarcity. A land-value tax collects on behalf of society the value attributable to the land itself, while leaving owners to collect the returns on investments in the land, such as buildings, untaxed. Similarly, shifting the burden of tax from capital income to wealth rewards ongoing efforts to deploy money well.

Economists like land-value taxes because they are efficient. But they also have a certain moral appeal. Society sets the terms on which individuals can accumulate wealth. It makes sense to structure those terms to benefit society as a whole. Wealth taxes are often cast as punitive—an impression encouraged by supporters, like Mr Sanders, who believe that "billionaires should not exist". But designed well, a wealth tax could confer greater moral legitimacy on large fortunes, because keeping them means continually putting them to productive ends.

**All's well that ends wealth**

Wealth taxes have their complications. Defining what kinds of investment are more productive than others is difficult. Instead of encouraging more risk-taking they might encourage tax avoidance—and emigration, since the rich are often highly mobile. In Europe, where citizens can easily move country and policing of tax evasion is lax, wealth taxes have been hard to sustain. But some politicians reckon that the challenges are surmountable. Elizabeth Warren, another Democratic presidential contender, would hit Americans who renounce their citizenship for tax purposes with an "exit tax" of 40% of their net worth above $50m. Financial institutions maintain detailed information on clients' wealth balances; governments could require them to share this information with tax authorities. Governments' patience with tax havens, already waning, could fail entirely if wealth taxation spreads.

Overshoot is clearly a risk. An energised American left, if elevated to power, could easily go too far. But wealth taxes are not necessarily an affront to economics. They are worth debating.

*"Use It or Lose It: Efficiency Gains from Wealth Taxation", *NBER Working Paper No. w26284,* Fatih Guvenen, Gueorgui Kambourov, Burhanettin Kuruscu, Sergio Ocampo-Diaz and Daphne Chen