Don’t Soak the Rich

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Rise in aggregate wealth → large revenue potential from taxing wealth

Household wealth in the United States (% of GDP)
Consider an annual 0.3% tax on wealth of top 10%:

- Would raise $\approx 1.2\%$ of GDP per year ($400\% \times 0.3\%$)
- which is... $3.5$ trillion over next decade
- Modest rate relative to property taxes; similar to fees collected by asset managers

$\rightarrow$ Wealth tax = powerful instrument to fund expansion US social state today
Some simple wealth tax arithmetic

Consider a more progressive Warren-type tax

- 2% above $50m, 3% above $1b
- Almost same revenue ($3–$3.5 trillion over 10 years)
- But coming from less than 0.1% of the pop.

→ Given size and concentration of wealth, large revenue potential from taxing top wealth
Funding the social state: VAT and payroll taxes?

How should government fund the social state?

- Ed rightly pointed out key role of spending side to reduce inequality
- European welfare states largely funded by VAT and payroll taxes

→ An expanded, viable social state requires the US to introduce a VAT / increase broad-base labor taxes?
Funding the social state in an era of high inequality

No, because US today is different than post-World War II Europe:

- Wealth stock at a nadir post WW2 vs. high today
- Inequality at a nadir post WW2 vs. high today

→ This makes consumption taxes and regressive taxes less attractive; taxing the top more attractive

→ Key to future of US fiscal policy is not 1950s France
Beyond the consumption tax paradigm

Standard economic view: “normal return” should be tax-free; tax consumption and “reents”

▷ Hugely influential (even on free-thinkers like Ed)

▷ But not a good guide for today

▷ Normal return/rent distinction moot in era of almost 0% ”risk-free” rate

▷ Regressive → feeds inequality which has boomed since the 1980s
Beyond the consumption tax paradigm

A useful paradigm for tax policy takes seriously

- large size and concentration of wealth and thus power
- fortunes of $ billions do not reflect “normal return” \( \rightarrow \) efficiency cost of taxing top wealth low

- Behavioral elasticities are not immutable but are policy parameters

\( \rightarrow \) **Tax progressivity matters—and is a matter of political will**