Wealth Tax: Project Syndicate

Larry Summers hates this, and, given that I lose three of four arguments I have with him, that is a sign that I may well be wrong here. Maybe it is that I spend too much time back in the eighteenth century, and do not understand modern public finance. Maybe it is just that we upper middle class urban Californians pay huge wealth taxes, and so don't see why others think it is a big deal. But it seemed and seems to me that whether one taxes wealth, income, or consumption in order to try to minimize the utility cost of taxation by placing burdens on those with a very low marginal utility of wealth is overwhelmingly a question of administrative practicality: how to identify those with a low marginal utility of wealth:

Isn't a Wealth Tax Common Sense? <https://www.project-syndicate.org/commentary/wealth-tax-common-sense-by-j-bradford-delong-2020-01>: I was not surprised when Gabriel Zucman and Emmanuel Saez <https://www.brookings.edu/wp-content/uploads/2019/09/Saez-Zucman_conference-draft.pdf > in offices down the hall and Thomas Piketty over in Paris began proposing, and Democratic presidential candidates began endorsing <https://www.vox.com/policy-and-politics/2019/1/24/18196275/elizabeth-warren-wealth-tax> <https://www.vox.com/policy-and-politics/2019/9/24/20880941/bernie-sanders-wealth-tax-warren-2020>, the idea of a "wealth tax". What did surprise me was what seemed and still seems to be a surprising amount of unexpected pushback—pushback from people I had always thought to be on the side of a more-progressive rationalization of the tax system.

Back up: When I learned public finance, I was taught that there were three principles of taxation, all spring from Jean-Baptiste Colbert's observation that the point was to extract the feathers from the goose with the least amount of hissing. That meant, first, always broadening the tax base so that you could hit your revenue target with the lowest possible and hence the least annoying tax rates. That meant, second, imposing taxes on items for which demand was inelastic, so that the tech system did as little as possible destructive distortion to the pattern of economic activity. That meant, third, taxing those for whom the utility cost of their tax payments was least—that is, taxing the rich. And what is the broadest possible tax base on which to tax the wealthy? It is their wealth, of course. And for what is the demand of the wealthy least elastic—what are they least willing to sacrifice to try to reduce their tax burden? Their wealth, of course.

Hence I thought it obvious that the technocratically-best tax system would contain a substantial wealth tax component. I interpreted arguments based on the work of Christophe Chamley and Ken Judd that *in the long run* one would seek to tax labor income and not wealth to mean that getting the amount of wealth taxation done was a high priority, hence it should all be accomplished in the short run. So I was surprised at the reaction I heard.

Smart, sensible, public-spirited people with their heads screwed on right opposed the idea. AEI's Alan Viard concluded that "reforms of the income tax and estate and gift taxes" would be "simpler and more prudent" <https://www.aei.org/wp-content/uploads/2019/11/Wealth-Taxation-

An-Overview-of-the-Issues-Revised-Nov-9-2019.pdf>. Brookings's Bill Gale is "not ready to buy on to the wealth tax yet for a lot of reasons" <https://www.theepochtimes.com/experts-slam-wealth-tax-proposal-by-warren-sanders_3130293.html>. Niskanen's Karl Smith calls it "simply un-American" <https://www.bloomberg.com/opinion/articles/2019-10-29/wealth-tax-proposals-may-be-feasible-but-they-re-un-american>. A chorus at a Saez and Zucman's Brookings Institute presentation feared that it would reduce Americans' willingness to make risky investments. My former coauthor Dean Baker fears "the growth of a large tax avoidance/evasion industry, which... produces nothing of social value". My frequent coauthor, good friend, and long-time patron Larry Summers fears a wealth tax would not reduce but "increase the influence of money in policy": if you can't keep your wealth and transmit it down the generations, you will spend it shaping society more to your liking. <https://www.youtube.com/watch?time_continue=1&v=oUGpjpEGTfE&feature=emb_logo>.

Moreover, Summers sees the move for a wealth tax as a diversion of effort: "For progressives to invest their energy in a proposal that the Supreme Court has better than a 50% chance of declaring unconstitutional... seems to me to potentially sacrifice an immense opportunity". And the Tax Policy Center's Janet Holtzblatt—whom I learned back in 1993 was better at public finance than I am—focuses on what she, in her understated way, calls "grave implementation and administrative challenges" <https://www.taxpolicycenter.org/sites/default/files/holtzblatt_ppt.pdf>.

Summers's "waste of opportunity" point seems cogent: I would agree that it would require a government that is already committed to doing the right thing, in view of the Supreme Court's partisan turn from Bush v. Gore to NFIB v. Sibellius and the blocked confirmation of Merrick Garland, and doubling the size of the Supreme Court. And the administrative and enforcement problems involved in defining and valuing the wealth of the rich are immense, as are the administrative and enforcement problems involved in defining and valuing the income of the rich. It would seem a cogent point to ask the IRS to pick one of these tasks to perform—to tax either all income, or wealth and labor income.

But I still have a sense that the discussion has gone wrong. What seemed to me to be a basic public finance point seems to have been lost. Why isn't it settled technocratic doctrine that a wealth tax is the ideal way to tax the wealthy, and that moves away from that benchmark must be justified in terms of administrative convenience and effectiveness? I am puzzled.

As Published:

J. Bradford DeLong: *Isn't a Wealth Tax Common Sense?* <https://www.project-syndicate.org/commentary/wealth-tax-common-sense-by-j-bradford-delong-2020-01>: The wealth-tax proposals being advanced by Democratic US presidential primary contenders clearly meets the public-finance standard for an ideal form of revenue generation. So why have these plans drawn such vehement criticism from so many who should be supporting them?

BERKELEY—I was not surprised when leading Democratic primary contenders began endorsing a "wealth tax" along the lines of what has been proposed by my University of California, Berkeley, colleagues Gabriel Zucman and Emmanuel Saez. What has surprised me is the level of pushback these candidates have received, particularly from those who should be in favor of anything that moves the United States toward a more progressive tax system.

When I first began studying public finance, I was taught that there were three principles of taxation, all stemming from the seventeenth-century French politician Jean-Baptiste Colbert's dictum to "so [pluck] the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing."

The first principle is always to broaden the tax base, so that you can hit your revenue target with the lowest possible (the least hiss-inducing) tax rates. The second is to tax items with inelastic demand, in order to minimize the tax system's distortive effects on broader patterns of economic activity. Finally, the actors who should be taxed the most are those for whom the utility costs of paying taxes are the least—that is, the rich.

Keeping all three principles in mind, what is the broadest possible tax base upon which to tax the rich? It is their wealth, of course. And what good are the rich least willing to sacrifice in order to reduce their tax burden? Their wealth, of course.

Given these basic principles, it is obvious from a technocratic perspective that the tax system should contain a substantial wealth-tax component. Even those drawing on the work of economists Christophe Chamley and Ken Judd to argue that one should tax labor income in the long run seem to accept that establishing some level of wealth taxation should be a high priority in the immediate term.

That is why I was surprised to hear smart, sensible, public-spirited people opposing the wealth-tax proposals advanced by Elizabeth Warren, Bernie Sanders, and others. According to Alan D. Viard of the American Enterprise Institute, it would be "simpler and more prudent" to reform "the income tax and estate and gift taxes" than to pursue a wealth tax. Likewise, William Gale of the Brookings Institution supports higher taxes on the wealthy, but then says that he is "not ready to buy [in] to the wealth tax yet for a lot of reasons." And Karl W. Smith of the Tax Foundation believes a wealth tax would "undermine a central animating idea of American capitalism."

Moreover, when Saez and Zucman presented their wealth-tax proposal for a Brookings Institution conference, they were met by a chorus of naysayers, with many fearing that the policy would reduce Americans' willingness to make risky investments. Even my former co-author Dean Baker of the Center for Economic Policy Research worries that a wealth tax would strengthen the incentive for the rich to "hire accountants, lawyers, and other people engaged in the tax avoidance/evasion industry."

Similarly, my good friend and long-time patron Lawrence H. Summers warns that a wealth tax could actually increase the influence of money in politics and policymaking, arguing that if the rich cannot keep their wealth to pass down to future generations, they will instead spend it shaping society in the here and now. Summers sees the push for a wealth tax as a distraction: "For progressives to invest their energy in a proposal that the Supreme Court has a better-than-50% chance of declaring unconstitutional … seems to me to potentially sacrifice an immense opportunity." Finally, the Tax Policy Center's Janet Holtzblatt—who, as I learned back in 1993, is better at public finance than I am—notes that a wealth tax could come with "grave implementation and administrative challenges."

Summers's point about a potential wasted opportunity seems cogent. For an effective wealth tax to prove lasting, the US would also need a government committed to doubling the size of the Supreme Court. Between Bush v. Gore(2000), Citizens United v. Federal Election Commission (2011), and Senate Republicans' refusal even to hold hearings on Merrick Garland's nomination, such a move is more than justified.

The concerns about administrative and enforcement problems are also understandable. Defining and assigning a value to the wealth (and incomes) of the rich would be an immense and difficult undertaking. To simplify matters, the Internal Revenue Service perhaps should be given just one task: either to tax all income, or to tax wealth and labor income.

Yet looking beyond these details, I cannot help but think that the discussion has gone badly wrong. A basic public-finance point seems to have been lost. It should be a settled technocratic doctrine that a wealth tax is the ideal way to tax the wealthy. As such, shouldn't the burden of proof lie not with proponents of a wealth tax, but with all who would defend a status quo that departs from that ideal benchmark? I am genuinely puzzled, and would love to hear a convincing response on that question....

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