

The Commonwealth or Just Common Wealth?

Some Economics— and Politics and the Law— of Wealth Taxation



Of the various issues being bandied about on debate stages, town-hall gatherings and op-ed columns, including health care, immigration and climate change, one of the most controversial and least agreed upon by 2020 (that's the year, not the number of) presidential candidates is taxing the wealth of the uber-rich.

Senators Sanders and Warren have led this charge, with the latter endlessly repeating her “two cents” mantra, as in demanding that those at the very top of the economic food chain contribute an additional two cents on the dollar. Certainly, as these New England patriots assert, can't these greedy corporate CEOs and other billionaires afford this pittance on their \$50 million net wealth (or three more pennies for those whose fortunes top \$1 billion, though the latter ante has now been raised to six cents)? But here, as with other political slogans and commercial come-ons, the devil is in the definitions, details, and math.

BY ALLEN R. SANDERSON

First, come April 15, most of us will settle up with the IRS by paying a percentage of our 2019 earnings in federal personal income taxes. And as “what happens in Vegas, stays in Vegas,” once we pay that toll, we—and the U.S. Treasury—will be done with that calendar year. But with a wealth tax, we would owe those two (or three or six) cents not only for 2019, but also again in 2020, 2021 and . . . That is, we would pay two cents on each dollar of that savings account balance, the value of art work, and other investments every year. After twenty-five years, that would amount to 50 cents on the dollar, not 2 (or 75 percent of net wealth over \$1 billion). The modest two cents would, within a generation, become at least 50.

Second, if the avowed purpose of this soak-the-rich scheme were to address inequality in this country, a simple stipulation would be that it be revenue neutral. That is, the rich would pay more, most everyone else would pay less, and the federal government's coffer would not change. But, alas, the complementary, and arguably more important to these proponents, political purpose is to enlarge the scope of government and to pander to their constituencies.

Third, those advocating such policies might want to take a junket, or at least a gander, across the pond. Thirty years ago, 12 European Union nations had a wealth tax. Today, only three do

(and one of those—Switzerland—has much lower tax rates than the ones proposed by Sanders and Warren). Why? Because the administrative costs proved to be much higher than anticipated, and the tax revenues collected were much lower than advertised, and people moved to avoid it. A wealth tax is basically an economic stimulus package for accountants and tax attorneys.

Senator Warren claims that this cash cow will produce \$2.7 trillion over 10 years. The basis for this number comes from the work of three French socialist economists—that may be redundant. If research work I do on commissioned economic-impact analyses is any indication, a good rule of thumb is to take such estimates and move the decimal point one place to the left; that's a decent starting point for discussion.

Fourth, one assumption behind these confiscations is that the poor are poor because the rich are rich. That is simply a difficult case to make. The same is true for the political refrain that the concentration of wealth leads to a concentration of political power.

The third assumption is that the federal government, surrounded by K-Street lobbyists and other special-interest groups, is simply better at determining where money should be spent than, say, Bill and Melinda Gates, the Walton family, Michael Bloomberg, Warren Buffett, Ken Griffin, J.B. Pritzker, the Koch family foundations, Mark Zuckerberg and Priscilla Chan, the Ballmers, Oprah Winfrey, and Barron Hilton. (And our charitable organizations would feel the hit immediately as these philanthropists diverted their largesse to Wash DC and abroad.)

(How can it be that \$50 million is a social, economic and political problem but \$49 million is not? That is, why do supporters target the really wealthy and ignore those just below? Why not “graduate” it in terms bringing more filers into the tax fold at lower rates? Because then more people—aka voters—would recognize the three-card monte hustle for the ploy it is.)

Finally, the nail in the Form 1040 coffin for wealth taxation may end up not being political or economic but legal: Is a wealth tax constitutional? States and municipalities are not bound by Article 1 (section 9) of the U.S. Constitution, but in terms of assessing “direct taxes,” the federal government is. Legal scholars—and the courts—will argue this for years.

Thus this two-cents' claim may be another illustration of the last sentence of Aesop's Fable “The Mice in Council,” the one following the famous query “Who will bell the cat?”: “It is easy to propose impossible remedies.” □