Funding the social state in the 21st Century

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OP-ED CONTRIBUTOR

Don't Soak the Rich

By Edward D. Kleinbard

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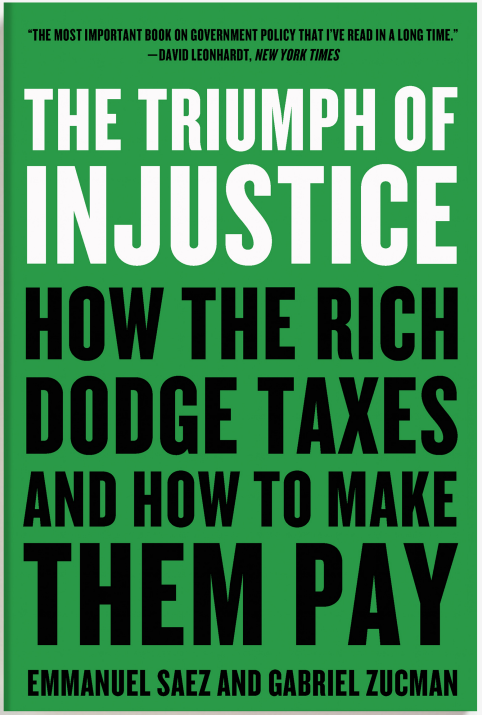
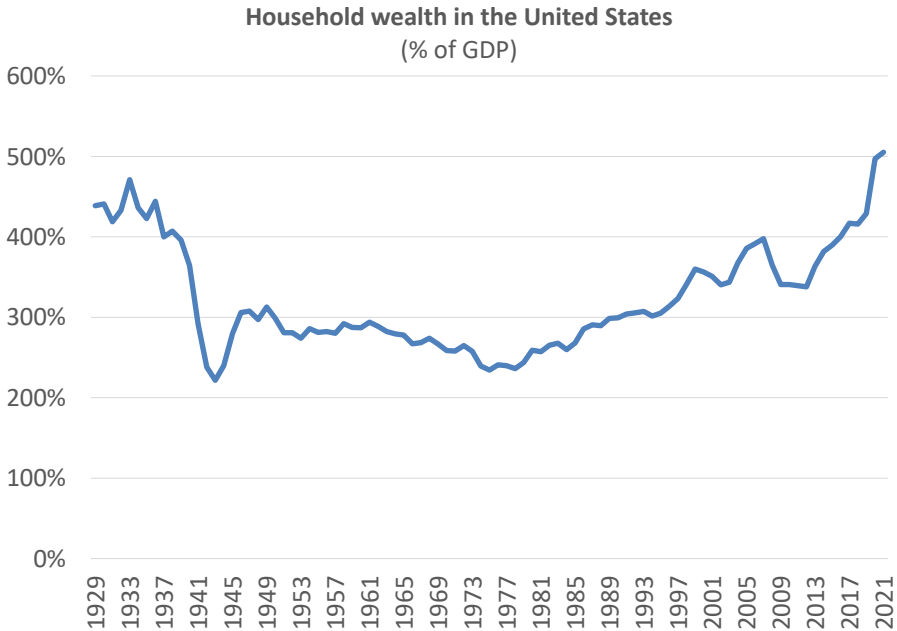

"THE MOST IMPORTANT BOOK ON GOVERNMENT POLICY THAT I'VE READ IN A LONG TIME."
—DAVID LEONHARDT, NEW YORK TIMES
THE TRIUMPH OF INJUSTICE
HOW THE RICH DODGE TAXES AND HOW TO MAKE THEM PAY
EMMANUEL SAEZ AND GABRIEL ZUCMAN

Rise in aggregate wealth → large revenue potential from taxing wealth



Some simple wealth tax arithmetic

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 "rents"

- ▷ 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 $\rightarrow$ 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" → efficiency cost of taxing top wealth low
- ▷ Behavioral elasticities are not immutable but are policy parameters

→ **Tax progressivity matters—and is a matter of political will**