The Daily Dish

The Sanders Wealth Tax

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Eakinomics: The Sanders Wealth Tax

Senator and presidential candidate Bernie Sanders has proposed an aggressive tax on the wealth of individuals and married couples. Specifically, married couples with a net worth over $32 million would be subject to an initial tax of 1 percent on net worth up to $50 million, 2 percent on $50 million to $250 million, 3 percent from $250 million to $500 million, 4 percent from $500 million to $1 billion, 5 percent from $1 billion to $2.5 billion, 6 percent from $2.5 billion to $5 billion, 7 percent from $5 billion to $10 billion, and 8 percent on net worth above $10 billion. Individuals would face the same rates, with the brackets cut in half.

Economists Emmanuel Saez and Gabriel Zucman of the University of California, Peoples Republic of Berkeley provided their analysis of the proposal to the Sanders campaign. According to Saez and Zucman, the policy will affect very few Americans — 180,000 or 0.1 percent — and raise a lot of money — $4.35 trillion over the next 10 years. This is the standard pitch for the spate of progressive wealth tax proposals: lots of easy money with little impact on Americans.

There are at least three problems with this message.

First, there may not be a lot of easy money. Saez and Zucman provided a similar rosy analysis of Senator Elizabeth Warren’s 2 percent wealth tax, which ignited a fierce back-and-forth with former Treasury Secretary Larry Summers about its realism. The reality is that it is pretty difficult to value net worth and extremely difficult to control avoidance and evasion. This fact is one of the reasons that of the 12 countries in the Organisation for Economic Co-operation and Development that had a wealth tax in 1990, only three remain.

Second, that’s not really the goal. The goal is to attack the affluent because they are affluent, and make them less so. Per Saez and Zucman: “We estimate that if the Sanders wealth tax had been in place since 1982, the wealth owned by the Forbes 400 richest Americans would be only 40% of what it is today: Instead of having a wealth of $7.2 billion on average (in 2018), they would have a wealth of $3.0 billion on average. The share of wealth owned by the Forbes 400 would not have exploded and would only be slightly higher than it was in the early 1980s. The current top 15 wealthiest Americans would own $196 billion (instead of the $943 billion they own in 2018).” Notice that if you are in the 8-percent bracket, your net worth has to earn an 8-percent return each year just to pay the taxes; anything less and wealth will diminish.

There is nothing about demonizing one part of a society that helps to develop more social cohesion. And making another person poorer does not in-and-of itself make anyone else better off.

Third, it may be the case that the wealth tax inflicts much wider damage by placing annual tax rates on the return to saving and investment that may even exceed 100 percent. This tax hike would dramatically raise the cost of capital, diminish investment, and harm growth in productivity and output. We’ve witnessed over the past decade the broad distress produced by an underperforming macroeconomy. From this perspective, a lot more research is needed about the broader impacts of such a policy; moving ahead without doing due diligence is a risky bet, at best.

The Sanders wealth tax is hardly a ho-hum affair. It is a maliciously motivated assault that will likely produce less revenue and more damage than advertised.