The Daily Dish

The California Wealth Tax

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The November 3 ballot in California will include a constitutional amendment and state statute for the "One-Time Wealth Tax for State-Funded Health Care Programs Initiative," aka the California billionaire tax or California wealth tax. The brainchild of the labor union SEIU United Healthcare Workers West, it would impose on the state's billionaires a one-time 5-percent tax on their accumulated wealth.

Yesterday, longtime wealth-tax advocates Emmanuel Saez, economist at the University of California, Berkeley, and Gabriel Zucman, economist at the Paris School of Economics, took to *The New York Times* opinion section to make "The Case for California's Billionaire Tax." Eakinomics has a few observations.

First, the issue is framed as a matter of "fairness." The billionaires are unfairly rich. They pay unfairly too little in taxes. Since it is a fact of human existence that people do not agree upon what is fair, this is the worst foundation for an argument in favor of any public policy. There is no conclusive logic or data that can be brought to bear on such an argument. This is a case of making no case whatsoever.

The authors also include the observation that "California's tax system fails to effectively tax ultrahigh-net-worth individuals. The same is true of the United States' tax system and those of other countries." In other words, there is no income or sales tax system that will satisfy the authors. The only solution is to use a wealth tax.

But that logic undermines the claim that this will be a one-time, unique tax. Suppose it passes and the 2026 tax is paid. What happens next year? The tax systems will still be unsatisfactory. The insatiable California budget will still want more revenue. And the authors will propose another 5-percent tax…and still say with a straight face that it is only one more time. Bollocks.

That also undermines the striking feature of the economics of the op-ed. There are none. No

billionaire will move – it's already too late. No investment will be affected – it's just taxing the past. No labor will be displaced. If something is too good to be believed, don't believe it. The prospect of future new taxes will unquestionably be a consideration in where the affluent live, where new offices and production facilities will be located, and how much economic activity will take place in California.

When AAF examined the national wealth tax proposals of Senators Warren and Sanders, two features stood out. First, a seemingly small tax on the stock of wealth translates into a large tax on the annual flow of capital income. Accordingly, it deeply deters the accumulation and deployment of capital in the economy, with the effect of lowering productivity growth and real wages. In the end, workers end up bearing a loss of $0.60 for every dollar of wealth tax. This isn't a tax that helps the little guy.

The case for the California Billionaire Tax isn't very strong. If one wants to play the fairness card, fine. But don't pick a policy that makes everyone in California worse off.