Eakinomics: There She Goes Again

Senator Elizabeth Warren is at it again, introducing a new wealth tax bill called the Ultra-Millionaire Tax Act. It would create an annual tax of 2 percent on the net worth of households between $50 million and $1 billion and a tax of 3 percent on net worth above $1 billion. We’ve been through this basic promise before: The wealth tax is a tiny (“2 cents out of every dollar”) levy on a handful of taxpayers that will painlessly generate dollars that the government will use to improve the lives of average Americans.

Except that is all wrong. Viewed from the perspective of annual return, 2 or 3 percent is a draconian tax (over 100 percent of the return on a 10-year Treasury). And the “handful” of taxpayers are chosen precisely because they have a large fraction of the investable capital in the economy. What happens when draconian taxes are imposed on the return to capital in the economy? There is less investment and innovation in the entire economy, slower productivity growth in the entire economy, and slower growth in real wages and living standards for every worker.

As AAF research by Gordon Gray and me demonstrates, these mechanics shift the burden of the wealth tax from its initial target – a relatively small number of taxpayers – to average Americans. Using the version she outlined during her presidential candidacy, the Warren wealth tax would cost workers $1.2 trillion (in 2018 dollars) in lost earnings over the first 10 years, and ultimately, for every dollar of revenue raised, workers would lose more than 60 cents of earnings. We conclude that if the federal government needs to raise more revenue, this idea is poorly designed and would have a uniquely negative impact on workers’ real wages – ultimately imposing an effective tax of 63 cents on workers for every dollar the government raises in revenue from the wealthy.

And AAF is not alone in reaching these conclusions. A second study conducted by Tax Policy Advisers LLC for the Center for Freedom and Prosperity finds similar negative impacts: “a decline in the capital stock of roughly 3.7 percent; An immediate loss in hours worked of 1.1 percent, equating to approximately 1.8 million jobs, and a long-run loss in hours worked of 1.5 percent; and an initial decline in average annual household real wage income of about $2,500.”

Wealth taxes are a bad idea.

But don’t believe you are safe because Joe Biden opposed the Warren wealth tax on the campaign trail. As Eakinomics has noted before, candidate Biden proposed an array of higher taxes on the return to capital that are “tantamount to raising the wealth tax to between 5.7 percent and 5.9 percent.” Right now, everyone is giddy at the prospects of rapid near-term growth, but they should be comparably alarmed about the poor prospects over the long term.