The Daily Dish

The Billionaire Tax and the Masses

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Eakinomics: The Billionaire Tax and the Masses

Let's sing the progressive anthem one more time, with feeling:

> We want massive government expansion
> With no taxes for the masses
> We'll target the 700
> And kick them in the a**es.

A nice ditty (maybe), but unconnected from reality. Yet that is what is being contemplated on Capitol Hill and seemingly lauded in the "news" section of the *Washington Post*. What is going on?

Recall that the latest idea is to tax the unrealized capital gains of billionaires – the billionaires' tax. Estimates are that there are maybe 700 or so who would be affected by the tax. Capital gains (the increase in value of an asset) are currently taxed at a 28.3 percent rate, but only when the asset is sold or realized. For a variety of reasons, this is the long tradition in U.S. tax policy.

The supposed innovation is to tax unrealized increases in value. This raises two important questions: (1) Which assets? and (2) Over what period? Since this remains just a conversation with no legislation, let's assume that it is only publicly traded assets (e.g., stocks). This raises the specter of the 700 simply selling off their publicly traded assets and purchasing assets outside of the tax system. If so, then the tax will produce lots of inconvenience, a huge swing in asset prices during the sell-off, and no revenue to show for it. Great.

Now, suppose (miraculously) that the people capable enough to become billionaires decide not to avoid the tax as described above. This raises the second question: Over what period are the capital gains measured? Typically, the answer is one year, but there has also been talk of capturing in the first year the accumulated gains since, say, 2000. If so, the billionaires' tax is simply a partial wealth tax in disguise.

That's a problem. AAF took a careful look at the wealth taxes and concluded "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," and "The Sanders wealth tax would cost workers $1.6 trillion (in 2018 dollars) in lost earnings over the first 10 years, and similarly impose over 60 percent of the burden of the proposal on workers."

In short, a wealth tax targeted at a very few high-wealth individuals morphs into a broad-based assault on the wellbeing of the working class. How does this happen? It turns out that the very few individuals are chosen because they have a large fraction of the investible wealth. Punitive taxation of that wealth diminishes the incentive to accumulate more wealth and also to deploy it in taxable sectors of the economy. Over time, that means less money to upgrade factories, install new equipment, adopt innovative business models, and otherwise improve worker productivity – leading to slower growth in real wages and the standard of living. The billionaires' tax is no different in its conception.

The fallacy in both the wealth tax and the billionaires' tax is that the 700 don't live on an economic island. Instead, they are connected to the masses by the incentives embedded in capital, labor, and product markets spanning the country. Taxation of one group affects the other and *vice versa*.