Sept. 12, 2019 – discussion draft – send comments to: kpolzer1@verizon.net

Moving a Wealth Tax from Rhetoric to Reality Is Hard. Why Isn't the Left Talking about the Shortest Distance between Two Points?

Karl Polzer – Center on Capital & Social Equity – www.inequalityink.org

To both dramatize widening wealth inequality and create tools to shrink it, left-leaning Democratic leaders are pushing for sweeping new federal taxes targeted at the very wealthiest. In a recent paper, economists who have advised Sen. Elizabeth Warren conclude that wealth taxes of 2%-3% on the richest families would be high enough to de-concentrate wealth levels from historic highs, but low enough not to provoke too much tax avoidance. They estimate the 0.1% richest American families have nine to 13 trillion dollars in stocks, bonds, jewelry, homes, and other items, net of debts, available for taxation. Sure, these billionaires would try to hide and move their assets. Let them try! Would the treatment they get from the regimes and weather in Europe, Asia, the Bahamas or elsewhere be worth the risk?

With several hundred billion dollars awaiting harvest each year from vastly outnumbered billionaires, what's stopping the government from snapping them up? Among the reasons are politics, political economy, enforceability, and legality.

On the political front, no one likes new taxes - especially if there's not a tangible benefit that comes along with them. For a nation to thrive, reducing wealth inequality *per se* may be very important for many reasons. But statistical improvement does not qualify as a tangible benefit to the average person. Voters, including those on the left, know enough to sense that, to create a more equitable society from where we are now, wealth taxes will likely extend downward to include the top 20% of professionals, bureaucrats, academics, and successful people making more than $100,000 a year. This group comprises a large part of the Democratic Party, particularly along the coasts. To win votes from the bottom 50% -- including politically sensitive "baskets" of deplorable, less than-politically-correct low- and middle-income workers – any political party controlling Congress might have tax a wide swath of its upper crust.

Taxing the upper-middle class means having to justify new taxes to educated, powerful party faithful. What's the money for? Health insurance for all? Subsidies mainly for the upper-middle class (such as free college, free childcare for everyone, and mandated family leave)? Benefits mainly for the lower-income (a higher minimum wage, a few paid sick days, subsidies for college and child care decreasing by income)? What about a $30-$40 billion in refundable tax credits targeted to low-income workers so all Americans can have some retirement savings? To the extent possible, new revenue should be used in ways that benefit everyone, but particularly workers struggling to make ends meet.

This week, Sen. Ron Wyden, ranking member of the Senate Finance Committee, announced a tax reform plan that would raise revenue at the top of the pyramid on a similar scale in order to make sure Social Security benefits won't be cut. He would close loopholes in taxing capital gains for the very rich while exempting the middle class from any loss.

On a practical level, extracting taxes from the wealthiest and most powerful is always challenging. It's very difficult to ascertain how much someone is worth and there are many ways to keep assets such as cash, stocks, shares in private held enterprises, and bonds from public view. It's easy to move liquid assets overseas. Monarchs and nations have tried to tax wealth for a long time. At a much earlier stage of capitalism, English and French tax collectors resorted to counting a residence's windows to estimate the owner's wealth. This way, net worth could be approximated crudely from outside the dwelling. In time, windows were often disguised or boarded up.

Though one wouldn't know it from ongoing political dialogue, wealth taxes are ubiquitous in our country – just not at the federal level. A practical way to apply a national wealth tax might be basing it on valuations that states and localities now use to extract about half of trillion dollars annually in property taxes. If states can piggyback their income taxes on the feds, why couldn't the feds return the favor to tax assets? Yes, property taxes are wealth taxes. They are a major source of local K-12 education funding, resulting in large resource gaps between schools in wealthier and poorer areas. An equitably minded Uncle Sam could gather an extra couple hundred of billion in property taxes and redistribute it to schools serving lower-income and middle-income neighborhoods.

There's also the legal issue. Wealthy people will likely go to court claiming a wealth tax is not "apportioned" among the states as required in the U.S. Constitution. How tax "apportionment" got into the Constitution may be relevant since it involves relations between the wealthiest, most powerful Americans constructing the new government and its least powerful workers, whom the Federalist Papers characterize as part property, part persons.

The framers came to the "three-fifths" compromise, including the apportionment language, to resolve a conflict between northern and southern states over how to count and value slaves. Southern states wanted slaves to count toward their representation in Congress, but not as wealth in any future tax scheme; at the time, tariffs were the only source of federal revenue. States with fewer slaves pushed for the opposite: slaves shouldn't give states any more votes in Congress and might be taxed as property. The compromise reads:

> "Representatives and direct Taxes shall be apportioned among the several States which may be included within this Union, according to their respective Numbers, which shall be determined by adding to the whole Number of free Persons, including those bound to Service for a Term of Years, and excluding Indians not taxed, three fifths of all other Persons."

Under what conditions today's Supreme Court would judge wealth taxation to be legally apportioned among the states remains to be seen. A broadly-based levy on property, piggybacked on tax practices long used in all states, might stand a good chance. As far as a Constitutional bar from redistributing tax revenues to lift the lower income, existing federal/state programs may provide precedent. Medicaid payments, for example, have been weighted to help of states with lower per-capita income for many decades.

Despite political gridlock, the inconvenience of separation of powers, and rumors to the opposite, the United States is still a practical country. Americans are beginning to see the need to reduce growing disparity in wealth for a number of reasons. Going after the ultra-rich may feel good in the political arena. What's needed, however, are practical steps resulting in tangible improvements for people at the middle and bottom of the economic spectrum. And honesty about who will foot the tax bill. Being a Progressive means not only directing government assistance to people at the bottom but also sharing the tax burden with people at the top.