DAILY NEWS

The wealth tax that wasn't: Comparing Warren and AOC's tax to Donald Trump's 1999 proposal

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Rep. Alexandria Ocasio-Cortez (D-N.Y.) and Sen. Elizabeth Warren (D-Mass.) have both made a splash recently by proposing big tax increases on the ultra-wealthy. Predictably, they have come in for attack from Republicans. Interestingly, Ocasio-Cortez and Warren can find support in Donald Trump’s 1999 tax plan, which would have gone far beyond theirs in soaking the rich, and at a time when wealth inequality paled in comparison to where it currently is.

The Trump plan arose during his first campaign for President. He was competing for the nomination of the Reform Party in 2000. The now-defunct party grew out of the independent presidential campaigns of industrialist Ross Perot in 1992 and 1996.

Reform Party members were obsessed with the national debt and Trump’s plan would have literally paid it off — not by cutting programs or raising taxes on working people, but by taxing the wealth of everyone with more than $10 million — about $15 million today, adjusted for inflation.

As detailed in his 2000 book, “The America We Deserve,” Trump said that a one-time tax of 14.25% on net wealth above $10 million (not counting the equity in one’s personal residence) would raise $5.7 trillion, enough to pay off the national debt at that time.

In fact, as I explained in a Wall Street Journal op-ed, Trump’s numbers didn’t come close to adding up. To actually raise $5.7 trillion in 1999 would have required either a much higher tax rate or a much broader tax base that would have had to tax people with modest wealth on things such as pension savings in Individual Retirement Accounts.

Even without taking his bad math into account, conservatives were up in arms about the Trump plan. Writing for the conservative Washington Times, Heritage Foundation economist Dan Mitchell called the idea of a huge tax increase on the wealthy “lunacy.”

Stephen Moore, then of the libertarian Cato Institute and later an adviser to Trump’s 2016 campaign, told the New York Times, “I don’t think the plan makes much economic sense.” Populist mainstay Pat Buchanan — in many ways, the template for future candidate Trump — said that “This is serious wacko stuff.”

By contrast, Hofstra law professor Leon Friedman praised Trump in the left-wing magazine The Nation. Said Friedman, “As unlikely as it sounds, Donald Trump may have started an important debate about resolving some fiscal problems in this country by recommending that we impose taxes on those who can easily bear the burden."

Economist Allen Sinai was the only authority Trump cited in favor of his plan. I reached out to Sinai and asked what he thinks today. He replied via email that in principle he still supported a wealth tax and reduction of the national debt. "The advantage of a wealth tax," he said, "is that it deals with inequality and the national debt, two long-run problems not dealt with now."

Ironically, we were just starting to run budget surpluses when Trump put forward his plan. According to a 2012 Congressional Budget Office study, the national debt would have been largely paid off by the end of the George W. Bush administration if we just hadn't cut taxes or raised spending for wars and new programs such as Medicare Part D. (Slower than expected economic growth also played a role.)

Today, we hear nothing about wealth taxes from Trump or the Republican Party, which is keen to completely abolish the one form of wealth taxation we now have, the estate tax, a tax that applies to just 2,000 people annually. And those on the right are apoplectic over the relatively modest proposals (compared to Trump's 1999 plan) of Ocasio-Cortez and Warren.

During a widely-viewed "60 Minutes" interview on Jan. 6, Ocasio-Cortez said she would raise the top statutory income tax rate, sometimes called the marginal rate (the tax on each additional dollar earned) to 70% from the present 37%. That is the same rate that existed from 1965 to 1981, and well below the 91 percent top rate during the Eisenhower administration.

Her new tax rate would apply only to incomes in excess of $10 million. That is, to the first dollar earned above $10 million, not to the amount below, as former Wisconsin Gov. Scott Walker falsely claimed. Ocasio-Cortez would use the additional revenue to fund a Green New Deal to counter climate change. She would not change the present tax treatment of long-term capital gains or qualified dividends, which are taxed at a maximum of 20% and are the main sources of income for the wealthy.

It is estimated that the Ocasio-Cortez plan might raise $720 billion over 10 years. The conservative Tax Foundation thinks this estimate is overly optimistic because rich people would change their behavior and rearrange their financial affairs to minimize the tax — exactly as wealthy people did in the 1950s.

By contrast, the Warren plan would tax wealth rather than income. She would impose an annual tax of 2% on the net worth above $50 million but less than $1 billion, and a 3% tax on billionaires (including Jeff Bezos, owner of the Washington Post). The University of California, Berkeley, economists Emmanuel Saez and Gabriel Zucman estimate that such a tax would raise $2.75 trillion over 10 years. Warren has not said exactly how this revenue would be spent.

Thus far, Ocasio-Cortez seems to have garnered the lion's share of vitriol from the right. The actor and comedian Ben Stein said her plan would lead to a dictatorship and genocide, and likened her to Stalin, Hitler and Mao Tse-Tung. Right-wing radio talker Rush Limbaugh agreed. Anti-tax activist Grover Norquist said that a 70% tax rate constituted virtual slavery.

Oddly, Warren's proposal seems to have gotten much less attention from conservatives. Their principal argument is that it is unconstitutional. That is because, they say, it is a direct tax that must be apportioned among the states according to Article I, sec. 2 of the Constitution; that is, the revenue from each state would need to be the same in per capita terms, which is impossible with a wealth tax. Anticipating this line of attack, Warren, a former professor at the Harvard Law School, released a letter from six legal scholars arguing that the 16th Amendment and various court decisions obviate the direct tax/apportionment constraint.

It may be that a wealth tax is substantively less objectionable than higher income tax rates. Bloomberg economist Noah Smith thinks a properly designed wealth tax could actually increase economic growth. The late Stanford economist Ronald McKinnon penned an essay for the Wall Street Journal arguing that it was a form of taxation that even conservatives could embrace. A 2015 YouGov poll asked people for the best tax to reduce inequality; 44% a wealth tax versus 28% in favor of taxes on labor.

Perhaps Trump was just ahead of his time in 1999. There is a lot to be said for taxing wealth rather than raising taxes on income. Given the twin problems of an unsustainable rise in both inequality and debt, the Trump plan may be an option worth reviving.