POLITIFACT

Elizabeth Warren: Does her wealth tax pay for her child care and higher education plans?

Jon Greenberg

April 25, 2019

Elizabeth Warren is unmatched among the Democratic presidential candidates for the depth and breadth of her policy proposals. She has tackled building affordable housing, boosting family farms, breaking up Big Tech, and the list goes on.

Many of her ideas come with hefty price tags. To help pay for them, she has her Ultra-Millionaire Tax, which would put a 2 percent levy on wealth above the $50 million mark.

"If we put that 2-cent wealth tax in place on the 75,000 largest fortunes in this country, we can do universal child care for every baby zero to 5," Warren told the audience at a CNN town hall April 22. "(We can do) universal college and knock back the student loan debt burden for 95%of our students, and still have nearly a trillion dollars left over."

Readers asked us whether Warren's math would get a passing grade.

Warren's 10-year estimates for the revenues from her tax plan are $2.75 trillion; on the spending side, the cost of universal child care is $700 billion and the cost of her college plan is $1.25 trillion. That's $2.75 trillion in revenue versus $1.95 trillion in spending.

But analysts from across the political spectrum said Warren makes a lot of assumptions. There are many parts of her plan that raise uncertainty. That makes her numbers hard to fact-check, and can throw her numbers into doubt.

The revenue side

Under Warren's Ultra-Millionaire Tax, the wealthiest 0.1 percent of households would pay an annual 2 percent tax on every dollar of net worth above $50 million, and a 3 percent tax on every dollar of net worth above $1 billion. They would pay that levy every year as long their wealth stayed above Warren's benchmarks.

According to two economists known for measuring wealth, if the plan took effect immediately, it would generate more than $200 billion in its first year and $2.75 trillion over the decade.

The estimates are "defensible," said University of California-Berkeley economist Alan Auerbach, based on what's happened in other countries. But, Auerbach noted, it hasn't been done in the United States.

"There remains considerable uncertainty about the extent to which the tax would hit its target, given opportunities for tax planning and outright evasion," he said.

Dan Mitchell, an economist formerly with the libertarian Cato Institute, made the same point.

"Rich people are not stupid," Mitchell said. "Or, if they are, they generally have clever financial advisers. There would be massive levels of tax planning."

Even without savvy accountants diluting packets of wealth to the $49.99 million mark, estimating revenues based on future wealth is dicey, because values swing dramatically with gyrations in the stock market.

"A 10-year time horizon does smooth this out somewhat but is still too short to make revenue forecasts over the entire time period very accurate," Stanford economist emeritus Roger Noll said.

Certainty is elusive, but revenues could be as little as 40 percent of what Warren anticipates, according to an estimate in a Washington Post op-ed from former Obama administration economic advisor Lawrence Summers and law professor Natasha Sarin.

Warren's office emphasized that the estimates in her plan account for tax avoidance. Based on four studies internationally, they factored in a 15 percent cut in reported wealth as the uber-rich cloak their assets. Plus, they said, the plan pumps money into the IRS for staff to ensure compliance.

Universal college and debt relief

Turning to the costs of Warren's education proposals, we found uncertainty there as well.

There are two parts to Warren's higher education initiative. First, it tackles existing college debt. For anyone making under $100,000, Washington would pay off up to $50,000 of their debt. The government would also help people making up to $250,000, although on a sliding scale.

Debt relief would cost about $640 billion up front, according to the analysts Warren called on to vet her idea. For context, total student debt now is nearly $1.5 trillion.

The second piece of her plan would split costs between federal and state governments to make all public two-year and four-year colleges tuition-free. Warren said that would bring the total federal cost to $1.25 trillion over 10 years.

Sandy Baum, a higher education fellow with the Urban Institute, said if this plan delivers, government costs could balloon.

"Plenty of people now go to out-of-state schools," Baum said. "With this, they would more likely stay in-state. Enrollment would rise and so would the cost. Also, people who go to two-year schools generally do it because it's cheaper. If both are free, some of them would pick a four-year school, where the costs of providing an education are higher. So the cost of the program goes up again."

What young people would decide is hard to predict, Baum said, which adds to the uncertainty.

Auerbach at the University of California said working at a state school gives him some insights into another unanticipated result of more federal largesse.

"I know that in-state tuition has remained as low as it is, even in the face of university budget problems, because voters and legislators are sensitive to the cost," Auerbach said. "If that goes away, the only way to keep tuition costs from ballooning would be some form of federal price controls."

Baum also worries that state schools would be stretched to absorb an influx of students.

"There are institutional costs for serving students," she said. "If you have more students and not more resources to help them, you aren’t promising a zero price to the institution. That’s a potential unintended consequence."

Universal child care

Warren’s proposal would make child care free to any family that makes less than 200 percent of the federal poverty line. Above that, no family would be required to pay more than 7 percent of their income.

The estimated cost is $707 billion over 10 years.

However, that figure includes the economic benefits that would offset the sticker price of the program.

The government would pay about $1.07 trillion, but if the money comes from the wealthiest, the economists Warren cited to bolster her plan said it effectively would put money in the pockets of lower- and middle-income families. Unlike the wealthy, they would spend the money on food, clothing and other essentials.

That would give the economy a boost. Add in the higher wages that day care providers would make, and the higher wages that families would earn because affordable day care would free them up, and the estimates fall to about two-thirds of the initial cost.

That’s the theory at least. In reality, economies can be harder to predict.