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Cato Study: Europe Abandoned Wealth Taxes Proposed by Dems

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WASHINGTON—When Sen. Elizabeth Warren (D-Mass.) introduced a new "wealth tax" in her campaign for the 2020 Democratic presidential nomination, she proposed taking the United States down a failed fiscal path most Europeans gave up on decades ago, according to Cato Institute tax expert Chris Edwards.

"European welfare states that U.S. liberals like Warren look to for inspiration, such as Sweden, have changed course, repealed their wealth taxes and other high-end taxes after realizing how damaging they were," Edwards told The Epoch Times on Aug. 5 in an email.

"By contrast to 'sin' taxes, wealth taxes are 'virtue' taxes that penalize the wealthy for being frugal and for reinvesting their earnings. That makes no sense," said Edwards, director of tax studies for the Washington-based libertarian think tank and editor of its downsizinggovernment.org website.

"The number of European countries with annual wealth taxes has fallen from 12 in 1990 to just three today," he wrote in the study, titled "Taxing Capital Wealth and Income."

Warren seeks to impose an added 2 percent levy on net wealth above $50 million and a 3 percent assessment on fortunes that are valued in excess of $1 billion.

Warren contends that too much wealth in the United States is becoming concentrated in too few hands, and she believes her proposal would generate much-needed funds to pay for other promises she's made, including forgiving virtually all college student loans and a Medicare for All universal health care program.

Sen. Bernie Sanders (I-Vt.) also wants to boost taxes on the wealthy to ensure that they, as well as corporations, "pay their fair share."

Even former Vice President Joe Biden—who appears to be seeking to project himself as a prudent policymaker—proposes to increase the capital gains tax to 39.6 percent on annual incomes of at least $1 million.

Biden would also increase the top rate on individual income to the same percentage, from its present level of 37 percent. High pressure from the increasingly strident left-wing base of the Democratic Party could force Biden into a position similar to Warren and Sanders on tax policy.

Most of the remaining Democratic aspirants talk in similar terms, according to Edwards, who notes that the top 1 percent of all U.S. income earners currently pay 25 percent of all federal taxes.

Edwards documents in detail how the European experience demonstrated that higher levies on the wealthy generate more tax avoidance and less in revenue gains than the huge hauls proponents typically predicted, among multiple negative results.

“Recent U.S. proposals to increase taxes on wealth and capital income run counter to the lessons learned about efficient taxation in the global economy,” Edwards wrote in his study.

“The Europeans discovered that imposing punitive taxes on the wealthy undermined economic growth. They found that wealth taxes encouraged tax avoidance and generated capital flight. European wealth taxes raised little money and became riddled with exemptions,” he wrote.

Changes by country described by Edwards in the study included:

- Austria abolished its wealth tax in 1994, “mainly due to the high administrative costs that accrued in the data collection process and because of the economic burden the wealth tax meant to Austrian enterprises.”
- Denmark cut its wealth tax rate in 1989 and repealed the tax altogether in 1997.
- Finland abolished its wealth tax in 2006, a reform “motivated by the fact that the tax had an unfair impact on enterprises and provided many possibilities to evade,” noted a European Commission report.
- France abolished its wealth tax in 2017 after many news articles noted that wealthy entrepreneurs and celebrities were fleeing the country. The government estimated that “some 10,000 people with 35 billion euros worth of assets left in the past 15 years.”
- A related reform was the 2015 repeal of France’s “super-tax” on high incomes of 75 percent, which also raised little money and encouraged high-earners to leave.
- Germany repealed its wealth tax in 1997 after a constitutional court struck it down, due to inequities in the treatment of different asset types. The tax repeal appears to have had a positive effect on savings.
- Ireland imposed a wealth tax in 1975 due to concerns about wealth inequality. The tax was full of exemptions, raised little money, and the administrative costs were high. It was repealed in 1978.
- Edwards also described similar results in the Netherlands, Norway, Sweden, Spain, and Switzerland.

“Rather than imposing a wealth tax or raising tax rates on capital income, policymakers should rethink the overall federal approach to taxing capital,” Edwards concluded in his study.

“A better way is through consumption-based taxation, which would tax wealth but in a simpler way that does not stifle savings, investment, and growth.”