Reports: U.S. economy would shrink if wealth tax enacted

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The U.S. economy would shrink over decades if a wealth tax similar to one proposed by U.S. Sen. Elizabeth Warren is enacted, a new report from the Center for Freedom & Prosperity Foundation says.

In "The Economic Effects of Wealth Taxes," authors John Diamond and George Zodrow, both Rice University economics professors, estimate that a 2 percent annual tax on household wealth above $50 million and a 6 percent tax on household wealth over $1 billion would cause a longrun GDP decline of roughly 2.7 percent in the size of the economy over the next 50 years. This translates to trillions of dollars in wealth that would never be realized or invested, they argue.

Taxing the wealthiest Americans in such a way would create a ripple effect, they conclude, resulting in an immediate loss in hours worked of 1.1 percent, or a loss of approximately 1.8 million jobs, and a long-term loss in hours worked of 1.5 percent.

They estimate a wealth tax would also cause an initial decline in average annual household real wage income of roughly $2,500 and spike the welfare state's growth by 70 percent.

Per-household wealth held by the top 0.25 percent of Americans would fall by $3.7 million, they estimate, and in lower-middle and upper-middle class households, declines in lifetime wealth would range from between $440 and $49,660.

"A wealth tax would shrink GDP, reduce annual household incomes and result in lost wages and American jobs," CF&P Chairman Dan Mitchell said of the findings. "It would be very bad news for our economy and for families in all economic tiers."

In countries that have already imposed a wealth tax, the Washington, D.C.-based Tax Foundation found that the trend has been to eliminate it because it hurt the economy and failed to raise revenue.

“Wealth taxes in Europe have had disappointing results and many have been phased out," Daniel Bunn at the foundation said. In 1996, "12 OECD countries collected revenue from a wealth tax. In 2018 "only 4 did, and among those, revenues made up an average of just 1.43% of total revenue.”

In a paper on wealth taxes, Cato Institute economist Chris Edwards wrote, “The Europeans found that imposing punitive taxes on the wealthy was counterproductive. Wealth taxes encouraged avoidance, evasion, and capital flight. In most countries, wealth taxes raised little revenue and became riddled with exemptions.”

Rather than increase taxes on the wealthy, he argues, “Wealth is accumulated savings, which is needed for investment.”

This investment is something presidential candidate Joe Biden has said he plans to tax. His $4 trillion tax plan would increase taxes on higher income households in life and at death, according to an analysis published by the Tax Policy Center.

Biden’s tax policy changes target the wealthy, including increasing the individual income tax rate on households with taxable income over $400,000, according to the center’s study.

“When someone dies and the asset transfers to an heir, that transfer itself will be a taxable event, and the estate is required to pay taxes on the gains as if they sold the asset,” Howard Gleckman, senior fellow at the Urban-Brookings Tax Policy Center, said.

Half of the revenue gain would come from higher taxes on high-income households, and about half would come from higher taxes on businesses, especially corporations, the analysis states. Increasing the corporate tax rate to 28 percent would account for about one-third of the additional revenue.

“The fortunes of the richest Americans are mainly socially beneficial business assets that create jobs and income, not private consumption assets,” Edwards said. “Raising taxes on wealth would boomerang against average workers by undermining their productivity and wage growth.”

“Rather than imposing a wealth tax or raising tax rates on capital income, policymakers should rethink the overall federal approach to taxing capital,” Edwards suggests. An alternative is

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