

More Proof that ‘Progressive’ Wealth Taxes Hurt Average Americans

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It’s a well-observed truth that when you tax something, you get less of it. What many of today’s Democrats don’t seem to understand is that the rule applies just as much to taxes on wealth itself as to taxes on, say, cigarettes or alcohol.

Progressive California state legislators recently proposed an extreme tax that would even follow residents who flee the state with their assets: a 0.4 percent annual tax not on income, but on wealth itself, applied to all Californians with assets totaling \$30 million or more. Meanwhile, Senator Elizabeth Warren’s long-time championing of a wealth tax has caught on with the Democratic base at large. A February poll by *The Hill* found that a whopping 85 percent of Democrats support imposing wealth taxes on the rich.

There’s just one problem: These punitive taxes have serious negative consequences not just for the wealthy, but for the economy at large.

“Wealth is accumulated savings, which is needed for investment,” Cato Institute economist Chris Edwards explains. “The fortunes of the richest Americans are mainly socially beneficial business assets that create jobs and income, not private consumption assets. Raising taxes on wealth would boomerang against average workers by undermining their productivity and wage growth.”

This isn’t just a theoretical downside of wealth taxes. A mountain of research shows that they don’t work. The latest evidence comes courtesy of two Rice University economists, who in a new paper studied the effects of something along the lines of Warren’s proposals: a tax of 2 percent on household wealth above \$50 million and 6 percent on household wealth of \$1 billion or higher.

The economists found that such a wealth tax would cause a 2.7 percent decrease in the size of the economy over the next 50 years. That may sound relatively small, but it translates to trillions of dollars in American wealth that would never get created. They further found that a wealth tax would destroy 1.8 million jobs. It’s not hard to see why. If you make your country’s policies hostile to the wealthy and successful, they’ll take their wealth — and their businesses — elsewhere. They’ll also adapt their behavior and spending decisions domestically to avoid the

tax. So, it's no surprise that the Rice paper also concluded the average household's income would drop by roughly \$2,500 as a result of this supposedly "progressive" tax's implementation.

The economists did find that the wealth tax would hurt America's wealthiest 1 percent, which would of course be the whole point. Yet despite the rhetoric of the Elizabeth Warrens of the world, they also found that middle-class families would suffer too, with decreases in lifetime household income ranging from roughly \$500 to \$50,000.

"A wealth tax would shrink GDP, reduce annual household incomes and result in lost wages and American jobs," Center for Freedom and Prosperity chairman Dan Mitchell said in response to this research's publication. "It would be very bad news for our economy and for families in all economic tiers."

If the research of economists at Rice and elsewhere weren't convincing enough, there'd also be the empirical evidence from countries where wealth taxes have already been tried. The Tax Foundation's Daniel Bunn has pointed out that the number of developed countries with a wealth tax has dropped dramatically in recent decades, from a peak of 14 countries in 1995 to just four countries by 2015. Why? Because many of the European nations that adopted them later abandoned them when they failed to raise revenue and caused clear economic harm.

Remember, the wealthy are the most mobile members of society and rather adept at avoiding taxes. For this reason, even progressive economists think Warren's projection that \$187 billion would be raised by her wealth tax is a vast overestimate.

The truth is that wealth taxes are a horrible way to raise revenue for government programs. They really only serve a political end: satisfying frenzied voters who want to "soak the rich."

That may be enough for today's progressives. But the rest of us — rich, poor, and middle class alike — should hope that they don't get their way.