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French Economist Wants an 80% Tax on the Rich, Part 2 [Veronique de Rugy]

Over at Economist.com, French economist Thomas Piketty and the Cato Institute's Chris Edwards posted their responses to each other on whether we should tax the rich more. (For part one of the debate, go here.) Piketty, who argued yesterday that the rich should be taxed at 80 percent, continues to make the case for his punishing tax rates.

After explaining that, basically, the rich can be taxed heavily because they have nowhere to go and they won't stop working anyway, hence revenue will not suffer that much, he makes an even weirder argument:

> This brings me to my last point. The main objective of raising marginal tax rates on the rich is not to raise additional tax revenue, but rather to keep top compensation under control and to curb the grabbing hand. In fact, the proposal that I am making - introducing a 80% marginal tax rate on all annual incomes in excess of €1m, leaving the rest of the tax system unchanged—would probably raise limited additional tax revenue.

In other words, it's punishment for punishment sake. He also tries to make the case that there is a market failure in the way top compensation is decided. He basically says that since there is no competition at the top, these high-paid executives can set their salaries as high as they want.

It is interesting to note that in Piketty's mind rich people and top executives are one and the same. However, as one commentator rightfully writes:

> There are many who fit Piketty's definition of "rich" who are entrepreneurs, who employ others or who are independent contractors whose compensation is market-determined. Some may be athletes or entertainers or authors. Can one say that JK Rowling's or Oprah Winfrey's incomes are not market determined?

Obviously, Chris Edwards is right to point out that this is nonsense and that, in fact, a person in a high-end job is rarely compensated for the tremendous positive externalities he creates for society.

> Those at the top end—the entrepreneurs, doctors, and others with unique skills—often generate benefits that are greater than their reward in compensation. One reason is that there is scope for innovation in top-end jobs like heart surgery that there isn't in lower-income jobs. The trash collector's wage matches his

> contribution, but when the surgeon invents a new medical technique, it can create long-lasting benefits for the rest of us that will only be partly reflected in compensation.
>
> I have people like Apple's Steve Jobs in mind when I think about designing tax policy for the top 1%. But Piketty seems to think that those at the top end did not earn their compensation, rather their high pay came from amorphous forces such as "gains from globalization." However, let's say Piketty is right, that the innovators behind firms like Apple just happened to be lucky that their products became global bestsellers. It still makes no sense to impose high taxes on them because those entrepreneurs are more likely to use the cash productively than the government. Indeed, from the beginning of Silicon Valley, wave after wave of millionaires have funded the next wave of business successes through angel financing and venture capital. Obviously, that would not have been possible under Piketty's 80% tax rate.

By the way, Chris also does a very good job at using Piketty's own data to show that we have plenty of evidence that top income earners react negatively to punishing tax rates and positively to tax cuts.

Finally, it is worth noting that while Piketty decries top executives and rich people who take tremendous risk to create value, being a professor in France, he hides in the most entrenched and secured job the French bureaucracy has to offer.

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