Funding the Future

Financial Times finds evidence of huge flight of rich a...

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The FT's suggested the rich are rushing to leave France in an article entitled "Top executives join France exodus." It focuses quite heavily (though not exclusively) on tax according to the Tax Justice Network, where the original version of this blog appeared.

"Exodus" is a pretty big word.

Now let's see. What does the article actually say?

"*Two senior executives at MoÃ«t Hennessy, the champagne and cognac arm of the LVMH luxury group, are moving to London from Paris.*"

That's your exodus, right there. But it does, admittedly, come with a qualification, a bit lower down in the article: LVMH told the Financial Times that their moves were "not because of tax reasons."

OK. There are, admittedly, high-profile names who have said they will move: Bernard Arnault applying for Belgian citizenship, which he doesn't seem to be finding very easy, and, more quirkily, Gerard Depardieu, getting a Russian passport after criticising France's high tax rates.

OK OK. Next, in the original FT article:

"*Bernard CharlÃ¨s, chief executive of Dassault SystÃ¨mes, was sharply critical of the high tax policies of Mr Hollande's Socialist government, telling Le Monde newspaper in an interview: "Residing in France has become a big handicap. Very largely, our hiring of top managers will have to be done elsewhere than in France."*

The FT continues:

"*He [Bernard CharlÃ¨s] said he was considering "in all its aspects" a proposal by his chairman for him to leave the country. Asked if some of the company's other leaders had already left, he replied: "Yes."*

And that's the sum total of the FT's evidence of the "exodus," at least in this article. In a population of 65 million we have one confirmed departure, one effort to leave, and an unspecified number of anonymous departees. (Who, we might ask, are they? Will they confirm that they left for tax reasons?)

We see kind of story this again and again: hyperventilating threats from a country's wealthiest citizens that they will depart in droves if they have to pay higher taxes - yet when their bluff is called they fail to act - but still keep on grousing and issuing the threats.

It's tiresome. The FT headline-writer and possibly the journalist (a quiet news day, we presume) have fallen for claptrap-as-usual. (This is not to single out the FT: in the mainstream global media, the Wall Street Journal is usually the hyperventilater-in-chief in this particular debate.)

One of the things we have learned in these debates, from repeated observation, is that talk is very cheap indeed. Such threats are very easy to make. Ripping your kids out of their schools to start a new life somewhere, on account of higher tax rates, is a very different proposition.

This isn't to say that there won't be more departures from FranÃ§ois Hollande's France, which is in an uncomfortable situation, economically speaking (it's unlikely to be anything to do with tax, though, as the FT's rather more sensible chief economics commentator Martin Wolf would explain).

Many people will naturally leave France for a wide variety of reasons, and some of the fervent tax-cutters among them are likely to claim they've left for tax reasons, at least to prove a point. A few probably will even genuinely leave for tax reasons. But international experience shows, repeatedly, that these tax-motivated departures happen only at the margin. The French millionaire population will broadly stay put, content in their comfortable chateaux and their cups; and meanwhile tax revenues, all other things being equal, will rise in accordance. (We aren't making any comment at all here about whether France should have lower or higher tax rates: that's for French democracy to decide.)

So much for the rhetoric. What does the evidence from the real world tell us about the migration patterns of the wealthy, in response to tax rates?

One of the best testing grounds for the 'tax migration' theory is among individual states in the United States, which each levy variable state taxes (on top of nationwide Federal taxes,) and where cross-state migration is far easier than moving, say, to a different country with a different language and different laws and different people.

And here the evidence is unambiguous. Take this Stanford paper, for instance, which finds 'negligible' effects from a large state tax hike in New Jersey. Or this ITEP paper entitled "Where Have All of Maryland's Millionaires Gone? (Nowhere — They're Probably Just Not Millionaires Anymore.) Or this, on New York, or this, on Oregon. (From those links, get a load of that repeated Wall Street Journal hyper-ventilation, in the face of all the evidence). More generally, take a look at Citizens for Tax Justice's Evidence Continues to Mount: State Taxes Don't Cause Rich to Flee, which begins:

"*There's been a lot of good research these past few years debunking claims that state taxes — particularly income taxes on the rich — send wealthy taxpayers fleeing from "unfriendly" states.*"

Read that short CTJ report: the evidence is simply incontrovertible. For a more hilarious British example, take a look at this delicious Tax Research skewering of a ridiculous recent story in the Telegraph newspaper, headlined Two-thirds of millionaires disappeared from official statistics to avoid 50p tax rate.

The Telegraph followed this up five days ago with an article headlined Almost a quarter of millionaires want to quit Britain. (Yes, that's how cheap talk is. Let's now watch and look-see if almost a quarter of Britain's millionaires *do* leave, shall we?)

And where, pray, do these British millionaires want to go? Well, according to Richard Musty, Lloyds TSB International Private Bank Director,who is cited in this story, the top destinations are:

Australia, the U.S. and Canada, and . . . yes, France.