

Let's get the reasons for taxing wealth right: t...

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In [an article on Brave New Europe this morning](#) Camille Landais, Emmanuel Saez and Gabriel Zucman argue that there needs to be a European wide wealth tax to fund repayment of the government debt that will be incurred to address the coronavirus crisis. Their argument is that if this crisis will create a debt of 10% of GDP in a single period then a tax raising 1% of GDP could clear this debt in ten years. I admit I am not taken by this very obviously simplistic idea.

Please don't get me wrong: I have no problem with taxing wealth. I intend to start a whole series on taxing wealth on this blog in fact, very soon precisely because I am all in favour of taxing wealth. [Even the FT is now](#). But I do not wish to tax wealth for the reasons these authors note. In fact, I think that there plan is quite deeply flawed and quite possibly counter-productive.

First, the coronavirus crisis is not going to last a year. This is not a recession, or even a depression. This is a slump. To think that the cost of this crisis will be 10% of GDP in one year only is completely wrong. When I suspect there will be at least 20% unemployment in many countries as a result of the havoc this lockdown will cause to business across Europe that claim is a massive understatement of both its cost and duration

Second, in that case to pretend that a wealth tax can 'pay' for this is wrong: it can't. It's inappropriate to claim what is not true right now.

Third, it's also a fact, of course, that tax will not pay for this crisis. That's a false claim. Government borrowing or money creation (and probably a mix of both) will pay for this crisis. Tax will never do so. What Camille Landais, Emmanuel Saez and Gabriel Zucman are actually discussing is not how to pay for this crisis, but how to supposedly redistribute wealth after it is over. That is something quite different.

Fourth, their discussion of after the event financing also seems inappropriate. They are making presumptions that appear unrelated to the realities of the likely AC (after coronavirus) economy. In that case let me offer an alternative perspective on this issue.

We do, of course, now need to tackle wealth inequality through the use of the tax system. There are good reasons.

In the first instance, that is because the recovery from the crisis of 2008 has been remarkably generous to wealth. Quantitative easing, in particular, did not just shore up the value of wealth by keeping banks solvent, so preventing the dissipation of the wealth of their depositors that would have happened if they had failed; it also propped up and notionally increased the apparent value of a whole range of other assets, from property, to the stock market, to government bonds. Nothing was ever so kind to financial wealth as the 2008 bailout was. That largesse, delivered by the state to the wealthy, now needs to be addressed and corrected. The most massive amount of wholly unearned wealth increase now needs to be reclaimed for the common good.

Then there is the simple fact that wealth is currently massively undertaxed. Ignore the absence of notional wealth taxes of the type Camille Landais, Emmanuel Saez and Gabriel Zucman propose, which will take considerable time (measured in years, and not months) to legislate, organise and then collect. Instead appreciate that existing taxes are incredibly kind to wealth and that if there is a desire to tax wealth then the low hanging-fruit have to be tackled first.

For example, capital gains taxes are usually at low rates right now. They should be equaliser with income taxes.

And corporate taxes are lower than income taxes, providing the wealthy with massive opportunities to shield their incomes from higher tax rates. So, excepting genuinely trading small businesses, corporate taxes need to increase, significantly.

Then there is the fact that income from labour is subject to social security and payroll tax charges that are frequently of substantial amount, often at least equal income tax charges on that same labour, but there is no equivalent levy in the unearned income of the wealthy. This has to be corrected using investment income surcharges on income from unearned sources of amount broadly equivalent to social security charges.

And, it's worth noting that few countries effectively tax gifts, which are an easier target than wealth, whilst speculation goes untouched by a turnover tax such as a financial transaction tax unlike the consumption of those who work, which is targeted with value added tax, which is a tax that is itself also riddled with exemptions that mainly favour the well off.

If all these issues are appreciated and properly understood then it is easy to appreciate that the case for wealth taxes could, and should have been made without the coronavirus crisis. The tax system was already rotten in this regard. But it's also apparent that beginning the proper taxation of wealth is not that hard to do.

When the world's major financial institutions, including the World Bank, IMF and OECD

all think that the failure to tax wealth is contributing to the scandal of growing wealth inequality, and did so long before Covid-19, there was already good reason to act on this issue. Coronavirus is just a sideshow that adds weight to an existing argument.

But even if do we now tax wealth that is not to pay for the coronavirus crisis: as I have already noted, that will not happen, in any case. The reason to tax the wealthy is that they have gains made through no effort on their part that the state needs to recover. And it is necessary to redistribute those gains to those in need so that they might spend when that is critical if demand is to recover after this crisis is over, and those with lowest incomes have the highest marginal propensities to consume.

In addition, this tax is also necessary to prevent the wealthy profiting this time around as well.

That last point is critical and needs explanation. Think for a moment about the suggestion that we might need to repay this debt, and what motivates that claim. It is not for cost reasons: the coronavirus debt will, after inflation, be costless to government. Interest rates are negligible right now. That creates no pressure to repay. I cannot see that changing for well over a decade and maybe much longer. So that is not a reason.

And let's also recall that government debt is simply the flip side of private saving: sectoral balance analysis that any economist should understand, but which most don't, make that very clear. And given the state of the financial markets and the fact that after a crisis like this people always save to build up reserves in case there is a 'next time', and given the fact that right now government debt is easily the safest place to save, then the demand for government debt is going to be maintained for a very long time to come. In other words, there will be no pressure all to repay: indeed, the very opposite might be true.

So why force the reduction in government debt by requiring that the debt that pays for the costs of the coronavirus crisis be repaid? And what would such a policy do? All it can do is force people who want to save back into riskier savings media, including artificial stores of wealth like the stock market. In that case a policy of government loan repayment would simply be a mechanism to reflate the financial centres of Europe, in the process creating yet more wealth inequality, all over again. And that is another reason why this policy makes absolutely no sense at all. It's pro the creation of the wealth inequality that we need tax to correct right now.

We do not, then, need a wealth tax to pay for coronavirus, which it cannot, in any case, do.

We do need to tax wealth though. But that's because we need to address inequality.

And the only economic rationale for taxing wealth more is to reduce tax on the rest of

the population - which is the necessary corollary of seeking to achieve that redistribution. The proceeds of a wealth tax should not, in that case, be used to repay the savings of the wealthy, which is what is being proposed by the authors of this article. Instead, the proceeds of a wealth tax must be used to reduce the tax paid by those not as well off. That is what tackling wealth and income inequality requires.

I would welcome more taxation of wealth. I am pleased that the FT is converted. But I am afraid that Camille Landais, Emmanuel Saez and Gabriel Zucman provide all the wrong reasons for having a wealth tax, and then promote the wrong solution for this moment when there are so many better ones available almost off the peg.

My plea then is a simple one: let's get the reasons for wealth tax right. Then we might get what we want.