

STATED AND IMPLICIT ENDS OF THE WEALTH TAX: ANALYTICS AND UNINTENDED CONSEQUENCES

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ABSTRACT: There is growing support in the United States for Democratic Socialist policies such as the wealth tax. Under such a policy, wealthy citizens would be taxed according to their accumulated capital in addition to their income. The stated goal of a wealth tax is to reduce inequality. Policy proposers also highlight several implicit goals such as increasing the overall wellbeing of the poor. This paper is an economic analysis of what would occur if a wealth tax were imposed. We argue that neither the stated nor implied goals will be achieved; a wealth tax would hamper investment, societal productivity, and wage growth, and thus decrease the overall wellbeing of the poor.

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Winston Churchill observed that “the inherent virtue of Socialism is the equal sharing of miseries.”¹ Once an economically prosperous state, Venezuela is now an example of forced equality—an equality of desperation, poverty, and starvation. In a new effort to continue closing the gap between rich and poor, Venezuela imposed a tax on wealth on July 3, 2019. Property subject to this tax includes assets like security and shares, motor vehicles, jewelry, and even artwork.² Almost fifty years prior to Venezuela’s new requirement, Murray Rothbard analyzed the consequences of wealth taxes in *Power and Market*. Rothbard warned that wealth taxes slash accumulated capital, the factor that “differentiates our civilization and living standards from those of primitive man.”³ Despite Rothbard’s bleak assessment, the idea of a wealth tax is gaining popularity not only in Venezuela but also in the Western world. Senator

1 Winston Churchill, *Speech at House of Commons*, INTERNATIONAL WINSTON CHURCHILL SOCIETY, 1945.

2 Slim Gargouri, *Venezuela Enacts New Wealth Tax*, TAXNOTES, July 30, 2019.

3 MURRAY ROTHBARD, *POWER AND MARKET: GOVERNMENT AND THE ECONOMY* (1970).

Elizabeth Warren proposed a wealth tax for the United States in January 2019 and 74% of registered voters now support it.⁴

Warren and her supporters champion wealth equality for the sake of the poor, but further analysis reveals unintended consequences that would in fact decrease living standards for those the policy is intended to help. This paper will first identify both the stated goal of reducing income inequality and the implied goal of increasing the welfare of the poor and then apply positive analysis to determine whether or not the policy accomplishes these goals. Our thesis is that neither the stated nor implied goal of Elizabeth Warren's wealth tax is achieved. Reduced income inequality is unlikely to be achieved due to enforcement challenges and anticipatory actions taken by the wealthy. In addition, hampered investment, reduced societal productivity, and suppressed wage growth would decrease rather than increase the overall wellbeing of the poor.

4 Matthew Sheffield, *New Poll Find Overwhelming Support for an Annual Wealth Tax*, THE HILL, Feb. 6, 2019.

THEORETICAL FRAMEWORK

Throughout this paper, the wealth tax will be analyzed from an economic, rather than political, constitutional, or ethical perspective. In this section we will outline the definitions, concepts, and methodology that will be employed to gain an economic understanding of the wealth tax. The first is the distinction between positive and normative analytics. Normative analysis studies *what ought* to be. Positive analysis studies *what is*. This paper is concerned with positive rather than normative analytics. That is, we will be showing the clear effects that the wealth tax would in fact have. It could be true, as many of a more libertarian persuasion would argue, that the wealth tax is immoral because it is a form of theft. Likewise, it could be the case that, as a country, we are morally obligated to tax the extremely rich in the name of equality. However, moral concerns such as these are not the subject of this paper. We seek only to demonstrate the economic consequences of the wealth tax.

For the sake of argument, we will not question the normative goals of the policymakers. In this case the stated

end is the alleviation of inequality and the implied end is raising the living standards of the poor. After the ends have been outlined, we will apply economic theory to determine whether the ends of the policy are achieved. First, we will argue that the stated ends of the wealth tax are unlikely to be fulfilled due to the unique enforcement challenges of the wealth tax. Second, we will argue that the implied ends of the wealth tax are also unlikely to be accomplished because of the tax's unintended consequences which reduce investment, societal productivity, and wage growth. For the second point, we will grant perfect enforcement of the wealth tax for the purposes of argumentation. Even a perfectly enforced wealth tax will not help America's poor.

BACKGROUND: PROPOSED TAX

The "Ultra-Millionaire Tax" was a signature of Elizabeth Warren's 2020 presidential campaign. Warren's wealth tax applies to households with a net worth of \$50 million or more. In practice, the top 0.1%—75,000 households—would pay the tax. Warren proposes a 2% annual tax rate on household net worth between \$50 million and \$1 billion and a 4% annual rate on net worth above \$1

billion.⁵ Since the tax is annual, the amount of tax paid on a sum of wealth is cumulative. For example, although the rate is 2% per year, after ten years, an individual will have paid 20% in cumulative tax on a fixed sum of assets.⁶ After twenty years, the individual will have paid 40% if their wealth remained constant. The household wealth tax includes both financial and non-financial assets net of debts, from bonds to pension funds to assets held by minor children to shares in non-corporate businesses.⁷ For enforcement, the plan would increase the IRS budget and implement a minimum audit rate for taxpayers. In order to deter emigration as a means of tax avoidance, a 40% “exit tax” on net worth over \$50 million is required if an individual renounces citizenship.⁸

Warren proposes a tax on wealth because the current tax system allows the rich to insulate their savings with a lower effective tax rate. Top wealth-holders, often because of significant unrealized gains, are able to report an income

5 Elizabeth Warren, *Ultra-Millionaire Tax*, accessed Dec. 9, 2019.

6 Alan Viard, *Wealth Taxation: An Overview of the Issues*, ASPEN INSTITUTE, Oct. 2019.

7 Emmanuel Saez & Gabriel Zucman, *Progressive Wealth Taxation* 4,1-66 (Brookings Institute, BPEA Conference Draft, 2019).

8 Elizabeth Warren, *Ultra-Millionaire Tax*, accessed Dec. 9, 2019.

on their tax returns that is “less than 4% of their wealth.”⁹ For example, founders and owners of large companies—like Jeff Bezos, Warren Buffett, and Mark Zuckerberg—have significant unrealized gains because the financial instruments issued by their companies do not pay dividends. If the stakeholders do not sell their stock, they can pay a lower income tax relative to their “true economic income.”¹⁰ Opportunities for tax avoidance enable Bezos and Buffett to pay a smaller percentage of their total wealth in taxes compared to other families. Warren’s proposal includes the claim that “families in the top 0.1% are projected to owe 3.2% of their wealth in federal, state, and local taxes this year, while the bottom 99% are projected to owe 7.2%.”¹¹ While significant unrealized gains is one factor that distorts taxable income, another factor is accumulated wealth. For example, Warren supposes that a wealthy heir has \$500 million in property, trust funds, and investments and makes

9 Alan Viard, *Wealth Taxation: An Overview of the Issues*, ASPEN INSTITUTE, Oct. 2019.

10 Emmanuel Saez & Gabriel Zucman, *Progressive Wealth Taxation* 17, 1-66 (Brookings Institute, BPEA Conference Draft, 2019).

11 Elizabeth Warren, *Ultra-Millionaire Tax*, accessed Dec. 9, 2019.

\$50,000 in 2020.¹² A teacher with no savings might also make \$50,000 in 2020. With only a progressive income tax, both the wealthy heir and single mother would pay the same amount of income tax in 2020. Warren thinks this scenario is unfair. As realized income poorly reflects true economic income or wealth, Warren argues that increasing the progressive income tax rate alone will not force the wealthy to pay their fair share.¹³ So long as the rich can lower their effective income rate, increasing the progressive income tax rate will not reduce the tax disparity between the wealthy CEO or heiress and the common family.

Warren and her supporters believe that net wealth, which takes all household assets into consideration, is a better indicator of how much in taxes a household should pay. Warren writes that “our tax code focuses on taxing income, but a family’s wealth is also an important measure of how much it has benefitted from the economy and its ability to pay taxes.”¹⁴ Warren does not intend the wealth tax to replace the progressive income tax; rather, she wants

12 *Id.*

13 *Id.*

14 *Id.*

the wealth tax to supplement the current tax requirements in place. Under a wealth tax, the single mother would pay the progressive income tax rate, but the wealthy heir would pay the progressive income tax rate *and* a 2% tax on her net wealth. A net wealth tax, unlike income tax, considers unrealized gains and all assets; therefore, a taxpayer must pay on the basis of their “true economic income.”¹⁵ Since citizens cannot lower their taxable wealth by investing in non-dividend paying stock, buying non-financial assets, or even transferring assets to minor children, the wealth tax purportedly reduces opportunities for tax avoidance.

Senator Warren’s “Ultra-Millionaire Tax” is a response to what she deems an “extreme concentration of wealth” held by the richest 400 Americans; the goal of the wealth tax is to reduce wealth inequality while simultaneously generating revenue for government welfare programs. In support of wealth equality, proponents first appeal to morality. Bernie Sanders, for example, says that it is a “moral and economic outrage” for some Americans to be homeless, uninsured, and uneducated when three Americans

15 *Id.*

own “more wealth than the bottom half of American society.”¹⁶ According to Sanders, Americans have a moral responsibility to curb the billionaire class that “has been at war with the working-class families.”¹⁷ One open letter written in support of the wealth tax echoed this sentiment, stating that “America has a moral, ethical and economic responsibility to tax our wealth more.”¹⁸ Supporters of the wealth tax also point out that increased government revenue can be used to help the poor. Warren explained in the October Democratic debate that her wealth tax would generate enough money to pay for government initiatives like universal childcare, pre-K, and tuition-free college.¹⁹ With higher taxes on the rich and more government programs, the goal is to reduce the wealth disparity between the rich and poor.

An analysis and proper understanding of the wealth tax’s goal is necessary for determining whether or not the wealth tax would accomplish its purpose. Warren and her

16 Bernie Sanders, *The October Democrat Debate transcript*, WASHINGTON POST, Oct. 16, 2019.

17 *Id.*

18 Russel Hotten, *US Billionaires’ group calls for wealth tax*, BBC NEWS, June 24, 2019.

19 Elizabeth Warren, *Ultra-Millionaire Tax*, accessed Dec. 9, 2019.

supporters seem to suggest that the primary *stated* goal is to reduce wealth concentration. Reducing wealth concentration is relatively straightforward. If the government extracts from the rich more taxes than the status quo then the rich will have less wealth than they did previously. Increasing taxes of any kind can effectively work to bring the wealthy closer to the median. The rhetoric used by Warren, Sanders, and supporters, however, suggests that their *implicit* goal is much more than merely reducing wealth concentration. By appealing to the plight of the homeless, uninsured, and uneducated, supporters of the wealth tax imply that they want not only to reduce the wealth of the rich but to also increase the living standards of the poor. After all, even if the wealthy retain a smaller percentage of their wealth, the morally outrageous circumstances of the poor will still exist if the policy does not somehow improve their welfare as well. In analyzing the wealth tax, then, there are two questions: first, will the wealth tax accomplish the stated goal of reducing wealth inequality, and second, will the policy accomplish the implicit goal of improving the welfare of the poor?

ANALYTICS: DOES THE WEALTH TAX ACHIEVE THE STATED
END?

Most economists agree that wealth taxes would reduce inequality. Saez and Zucman write that

in the IGM poll on wealth taxes, 73% of economists agreed and only 12% disagree [sic] with such a statement (results weighted by self-reported expertise). The reason is simple: if the rich have to pay a percentage of their wealth in taxes each year, it makes it harder for them to maintain or grow their wealth.²⁰

One thing to note is that this analysis assumes that wealth of the non-wealthy is either increasing or remaining constant. As will be argued later, wages and material welfare would decrease due to a wealth tax; however, the reduction in the wealth of the top 0.1% would be much greater per individual than the decrease in wealth of the poor due to lower wages. Therefore, the implicit assumption granted in the question posed above is a valid one. It seems clear that an *enforced* wealth tax would decrease inequality in society.

20 Emmanuel Saez & Gabriel Zucman, *Progressive Wealth Taxation* 37, 1-66 (Brookings Institute, BPEA Conference Draft, 2019).

Predictions of reduced inequality are based on the assumption that the wealth tax could be effectively implemented in the first place, but a review of European precedent suggests that this assumption is misguided. Between 1978 and 2017, ten European countries repealed their wealth tax laws for a variety of reasons, including high administrative costs, ineffectiveness in raising revenue, and evasion problems.²¹ Valuation difficulty and anticipatory action are the two primary reasons to think that a wealth tax would be almost impossible to enforce effectively, and therefore, would not achieve a reduction in wealth inequality.

The first enforcement concern is the challenge of valuing the estates of the wealthy. Warren proposes a tax as a percentage of all household wealth, but assets like jewelry, household furnishings, and family businesses that have not been publicly traded are difficult to accurately value.²² For example, Fleischer explains that closely-held businesses are usually undervalued by balance sheet analyses.²³ Although a

21 Chris Edward, *Taxing Wealth and Capital Income*, 85 CATO Tax and Budget Bulletin, 2019.

22 *Id.* at 5.

23 Miranda Perry Fleischer, *Not So Fast: The Hidden Difficulties of Taxing Wealth* (San Diego Legal Studies Paper No. 16-213).

private business can be compared to another in its industry, a host of factors must be taken into consideration, and differences in any of these “can cause significant disparities in value.”²⁴ The amount of wealth fraught with valuation problems is not insignificant. Using IRS data, Kamin estimates that about 50% of the wealth held by the wealthiest 1% of Americans is not easily valued.²⁵ Although estate, property, and gift taxes also require the valuation of assets, current tax procedures are hardly a successful precedent. Viard describes property tax appraisals as “notoriously inaccurate.”²⁶ Raub compared the value of estates reported on estate tax returns to the value of the same estates on the *Forbes* 400 list of wealthiest Americans.²⁷ The estate tax return data could only account for 50% of the wealth estimated by *Forbes*. Raub concludes that “the portfolios of very wealthy individuals are made up of highly unique assets and often the value of assets, such as businesses, are

24 *Id.* at 17.

25 David Kamin, *How to Tax the Rich*, 146 *Tax Notes* 123, 119-129 (2015).

26 Alan Viard, *Wealth Taxation: An Overview of the Issues*, ASPEN INSTITUTE, Oct, 2019.

27 Brian Raub et. al., *A Comparison of Wealth Estimate's for America's Wealthiest Decedents Using Tax Data from the Forbes 400*, NATIONAL TAX PROCEEDINGS, 128-135 (2010).

very closely tied to the personality and skills of the owner.”²⁸ Although proponents argue that net wealth is a better indicator of how much an individual should pay in tax, net wealth is difficult to determine accurately. Warren wants to ensure proper enforcement of the wealth tax by expanding the IRS, but Daniel Hemel argues that “valuation problems won’t be solved by more manpower.”²⁹ The value of some assets, like rare jewelry or artwork, is difficult—if not impossible—to accurately value if the assets are not publicly traded, regardless of how many people staff the IRS.

The second enforcement challenge concerns anticipatory actions taken by the wealthy to evade wealth taxes, whether by moving assets or concentrating wealth in easily concealed items. For example, while wealth that is invested in stocks and bonds is visible to the IRS, an individual might choose to buy diamonds instead—and then store the jewels offshore. In Japan, the wealth tax was abolished in part because there was a “severe disparity” between the impact on those with assets that are difficult to trace, like

28 *Id.* at 134.

29 Daniel Hemel, *Elizabeth Warren’s Wealth Tax on the Super-Rich Is the Wrong Solution to the Right Problem*, TIME, Jan. 30, 2019.

cash and jewelry, and those with real property that is easily identifiable.³⁰ If not easily identifiable or hidden abroad, assets may nonetheless present other valuation problems. Writing on the wealth tax in Europe, Brumby and Keen explain that “the rich have proved adept avoiding and evading taxes by placing wealth abroad in low tax jurisdictions.”³¹ Although the richest in America currently invest the large majority of their wealth in value-creating businesses, the introduction of the wealth tax incentivizes the wealthy to keep their visible wealth under the \$50 million threshold.

These challenges to effective enforcement thwart the practical implementation or success of the wealth tax. Enforcement challenges can dramatically raise the cost of implementing the policy to the point where administrative costs surpass the tax revenue.³² Enforcement challenges can also block the tax’s intended reduction in wealth inequality, as the rich avoid tax payments and retain their wealth. While

30 Mo Mofokeng, *Wealth Tax: A Systematic Literature Review*, NORTHWEST UNIVERSITY, 2018.

31 James Brumby & Michael Keen, *Game-Changers and Whistle-Blowers: Taxing Wealth*, IMF Blog (Feb. 2018).

32 Richard Epstein, *The Toxic Warren Wealth Tax*, HOOVER INSTITUTE, Feb. 11, 2019.

economists agree that taxes reduce inequality, the taxes can only do so if the government is able to effectively enforce the new policy. The unique enforcement challenges of the wealth tax suggest that this would not be the case.

ANALYTICS: DOES THE WEALTH TAX ACHIEVE THE IMPLICIT END?

While enforcement challenges hamper the accomplishment of the stated end of reducing inequality, there are also significant unintended consequences that harm the poor, rendering the implicit end unachieved. In order to analyze the unintended consequences, we will grant in this section that the tax is both effectively implementable and costless to enforce. The goal of this section is twofold: First, to demonstrate, using financial and historical arguments, that the wealth tax would reduce the amount of saving and investing, and therefore capital accumulation in society; second, to highlight how the implicit ends of helping the poor would not be achieved due to this reduction in capital accumulation.

The primary unintended consequences of the wealth tax are caused by hampered capital accumulation. Capital

is what allows our economy to function. Capital consists of the machinery, warehouses, trucks, land, buildings, etc. that are used by businesses to generate revenue. Capital is what creates wealth and allows for the provision of needs and wants in society. Businesses obtain capital through investment. They raise funds from investors, in the form of debt or equity, so that they can obtain capital goods and produce goods and services for consumers. The vast system of mutually beneficial exchanges known as the market is fueled by investments that allow businesses to acquire capital. Without investment, the capital accumulation that makes a society prosperous could not occur.

By examining the perspective of an investor responding to the new after-tax rate of return, it is easy to see how overall investment will be reduced. For example, imagine a taxpayer with \$10 million over the benchmark of \$50 million. Assume that prior to the tax, the investor could expect an average 6% rate of return that compensates the investor for the risk borne by investing. Prior to the tax, the investor could expect to possess, at year end, his original \$10 million plus \$600,000. Once the tax is implemented, the

investor will anticipate a tax at year end of 2% on his entire sum of \$10.6 million. The anticipated rate of return after the tax is implemented is now 3.88%. At 4% (the bracket for the ultra-rich) the expected ROR is pushed down to 1.76%. After considering taxes from capital gains as well as the effect of inflation, the ROR is pushed into negative territory. This example considers the implications over the course of only one year; however, the actual tax would occur every year, further magnifying the effects.

In short, as demonstrated from the example above, a wealth tax raises the costs associated with investing. The investors on the margin, who would not invest for a return any less than what they are currently earning, will cease their investment. Those that do not cease investing will likely pivot into riskier investments.³³ This is because individual investors' percentage returns scale with rates of return. For example, a 2% tax on an investment with a 3% ROR absorbs $\frac{2}{3}$ of the total return, whereas a 2% tax on an expected return of 12% comprises only 16.67% of the total return.

33 Robert Murphy, *Understanding Elizabeth Warren's 'Radical' Wealth Tax*, MISES WIRE, Dec. 3, 2019.

Because a greater percentage of the returns are maintained when pursuing a risky investment, the investments that do occur will be skewed in this direction. This shifts more resources into investments that would not be funded in the same quantity in the unhampered market while lowering the amount of investment provided to lower-risk enterprises. Due to a lowered after-tax rate of return, the total amount of investment in society would be lowered and the investment that did occur would be allocated toward riskier ventures. By thinking through the financial logic from the perspective of the investor, it is easy to see how a wealth tax would lower and misallocate investment and therefore reduce capital accumulation throughout society.

Another way to demonstrate that a wealth tax would likely reduce investing (and therefore capital accumulation) in society, is to examine countries—such as Germany and Switzerland—that have imposed wealth taxes. In these countries, the policy operated as a tax on savings, which reduced the amount of savings and investment. For example, the abolition of the wealth tax in Germany

had a positive effect on savings.³⁴ Brülhart studied how wealth holdings responded to changes in the Switzerland wealth tax.³⁵ Switzerland imposes wealth tax at the canton-level, so the authors take into account all canton-level tax changes. Brülhart found that, “reported wealth holdings are highly sensitive to wealth taxation. According to our baseline cross-canton panel estimate, a 1 percentage point increase in wealth taxes leads to 43% lower wealth holdings after five years.”³⁶ Whereas the imposition of a wealth tax lowered reported wealth holdings, tax repeal produced the opposite result. For example, Brülhart also examined the Lucerne wealth tax cut and notes that both financial and nonfinancial taxable wealth subsequently increased after the cut.³⁷ A plausible explanation for the increase is that when the wealth tax was in place, Switzerland taxpayers faced less incentive to invest and a greater incentive to hide undeclared assets; when the wealth tax was abolished, investments

34 Alena Bachleitner, *Abolishing the Wealth Tax: A Case Study for Germany*, (WIFO Working Paper No. 545, 2017).

35 Marius Brülhart et. al., *Behavioral Responses to Wealth Taxes: Evidence from Switzerland*, (CESifo Working Paper No. 7908).

36 *Id.* at 35.

37 *Id.* at 26.

produced higher returns and the benefits associated with hiding undeclared assets no longer outweighed the costs of possible imprisonment.³⁸ Household savings are necessary for the investments in capital goods that lead to productive laborers, higher wages, and value creation; however, the OECD countries' experience with wealth taxes reveals that household savings decrease with the imposition of the wealth tax and increase with the tax's abolition. The effect of the wealth tax on savings and investment is therefore not only hypothesized theoretically but confirmed by a historical review. The historical studies are unique in that they reveal the magnitude of the wealth tax's real effects.

Now that it has been shown that a wealth tax would reduce the amount of saving, investing, and capital accumulation in society, we will employ basic economic theory to outline the unintended consequences and demonstrate how a wealth tax would harm, rather than help, the poor. The effect of a reduction in accumulated capital would be significant. First, the wealth tax would have the unseen effect of reducing employment and economic growth

38 *Id.* at 30.

that would have existed as a result of capital accumulation in society. As tax policies enable government to funnel the wealth of the rich that was once invested in business ventures toward free child care, universal free education, and student loan forgiveness, the pool of capital goods that was being employed to grow the economy, provide value to consumers, and maintain current living standards in society will diminish. As the old adage goes, there is no such thing as a free lunch. The wealth of the ultra-rich does not primarily consist of luxury goods or highly liquid assets; rather “73% of their [the top 0.1% of Americans] wealth is equity in private or public companies.”³⁹ Warren’s policy discourages this investment in business and the capital goods that are used by businesses to generate revenue. As investments in business are taxed and decrease over time, the wages of workers also decrease. This is because capital goods, such as machinery, warehouses, and equipment, allow workers to be more productive. A reduction in capital goods would make the worker on average less productive.⁴⁰ The primary

39 Chris Edward, *Taxing Wealth and Capital Income*, 85 CATO Tax and Budget Bulletin, 2019.

40 Alan Viard, *Wealth Taxation: An Overview of the Issues*, ASPEN INSTITUTE, Oct. 2019.

determinant of the wages a worker earns is that individual's discounted marginal revenue product (DMRP). This is the discounted future stream of revenue earned due to the worker's labor. Therefore, if a worker is less productive due to the reduction of capital goods, his or her DMRP would decrease and wages likewise would fall.

In a free market, the interests of the ultra-rich are not antithetical to the interests of the poor. In a market where exchanges are voluntary, both the buyer and seller mutually benefit. Investors benefit by obtaining a rate of return on their investment while businesses benefit by reaping profits from their productive activity, and consumers benefit as their living standards are raised and needs met through the market system. Taxing the rich hampers this process. Because investment directly affects employment, economic growth and wages (all of which help the poor) would be likewise slashed. Ultimately, improving the welfare of the poor is contingent upon a growing economy and the investments from the rich that drive the economy. Although a wealth tax might temporarily aid the poor in the form of debt relief or subsidized education, policymakers would be plucking fruit

from a tree they are simultaneously cutting down.

This point is made even stronger by a brief look into the institutional effects a wealth tax would have. A wealth tax not only poses a threat to wages and economic growth, it also deconstructs the institutional pillars upon which a free and prosperous society is built. Although the institutional framework of an economy is easy to overlook, it is the most significant driver of economic development and prosperity. The protection of private property creates an incentive for productive activity. It is also the foundation of a free society. A wealth tax, although it may decrease inequality, will change the incentive structures faced by individuals with capital, lowering material living standards for society as a whole. To be clear, it is not being argued that freedom, protection of private property, and material prosperity are necessarily superior to the ideal of equality (though we believe them to be). We merely show that long-run equality and better living standards for the poor are rendered impossible due to the unseen effects of the wealth tax such as slashing accumulated capital and creating an institutional framework that disincentivizes productive activity.

CONCLUSION

Critics of the wealth tax reject the policy for a variety of reasons. Many political conservatives, for example, question the constitutionality of the wealth tax. Libertarians may challenge the very morality of coercing the wealthy to pay higher rates. This paper does not evaluate these normative questions of what policy the government *ought* to implement based on constitutional, traditional, or ethical considerations. Instead, this study uses positive analytics to determine *what is*; in other words, this paper takes the policy's goals as given and evaluates the policy's efficacy by examining whether or not it achieves its goals. On the basis of positive analytics, it is clear that the wealth tax is ineffective with regard to wealth equality and even counterproductive with regard to living standards for the poor.

The wealth tax presents unique enforcement challenges, as net wealth can be difficult if not impossible to accurately value. Furthermore, the historical record is marked with examples illustrating how the wealthy can take anticipatory actions to evade wealth taxes. If the government

cannot effectively implement the wealth tax, the proponents' stated goal of reduced wealth inequality cannot be achieved. The rhetoric of politicians highlighted in this paper, such as the appeal Sanders makes on behalf of the homeless and uninsured, seems to imply an even broader implicit goal of increasing the overall wellbeing of the poor. Assuming that the government can effectively enforce the wealth tax, it would do so only at the cost of society's welfare at large due to the decrease in capital accumulation. If the goal is also to increase the living standards of people in the bottom wealth bracket, the wealth tax accomplishes the opposite. By reducing investment, a wealth tax would only contribute to an "equal sharing of miseries" as average productivity and wages decrease. The wealth tax, therefore, accomplishes neither its stated nor its implicit goals.

