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Democratic Candidates Stupid or in Denial about Wealth Tax

by Richard W. Rahn

You may recall, a number of years ago an admiral was testifying before Congress about the need to put more military personnel on an island in the Pacific. A congressman, in all seriousness (perhaps after having a bad night), asked the admiral if he was concerned that the island in question might "tip over and capsize" with all of the additional people on it. Others, who are not that foolish, deny they have an alcohol or drug problem when it is obvious that they do. And now there are presidential candidates who claim it is possible to have massive tax and spending increases without making most people worse off rather than better off.

The evidence shows that at some point the burden of more government spending and regulation becomes so great that the economy slows and real income growth, despite the increase in government transfer payments, is much lower than it would be with smaller government. The United States and most other countries are beyond that point.

Likewise, each tax has a rate beyond which tax revenue and the general welfare fall over time (the Laffer Curve effect). The revenue- and welfare-maximizing tax rates are a function of the form of tax and time. For instance, the capital gains tax revenue depends on the willingness of people to realize capital gains by selling an asset such as real estate or stocks. If the rate is perceived as being too high, fewer people sell assets, and the government often receives less revenue rather than more.

The Reagan Treasury Department did a study to try to determine the optimum capital gains rate and concluded it was approximately 15 percent. Many studies in the years since have shown similar results. Current capital gains tax rates — federal plus state — are higher than the optimum; so, if our political leaders were more rational, they would cut the rate to bring in more revenue. Yet, most of the presidential candidates have proposed increasing the capital gains tax rate with the totally false claim (ignoring all of the empirical evidence) that it will bring in more revenue.

Most of the candidates have also proposed increasing the income tax rate on "the rich." One great advantage of actually being rich is that one can often determine both the form and place of their compensation, unlike the less well off. That is why every time and every place politicians have tried to increase tax revenue by taxing the rich at very high rates, it always fails to bring in the promised revenue. This experiment has been tried in dozens of countries, including the United States, over the last century; yet the political and media class are in denial. The maximum individual tax rate under President Carter was 70 percent; and under President Reagan, it was finally lowered to 28 percent. Yet, tax revenues were higher under the 28 percent rate than under the 70 percent rate because the economy grew so much faster with the lower tax rates.

Elizabeth Warren and some of the other candidates want to put in a "wealth tax" to pay for their multi-trillion-dollar spending schemes. Other than the fact that the wealth tax is unconstitutional, unadministrable and destined to fail, as did the other attempts to impose wealth taxes in various countries — it is a fine idea in the minds of those who have lost touch with reality.

A person's "wealth" is not fixed — it is variable. Rich people do not keep their wealth in a pile of gold coins in a safety deposit box, but instead normally have numerous investments in many different places. Most of these investments create jobs for others. As the late great Jack Kemp used to say, "How many truck drivers do you have if there are no trucks?" Wealthy people supply the trucks, the factories, the stores, and all of things and places where people find good-paying jobs. Those who would tax the "wealth" (in reality, productive capital formation) are job destroyers, if the truth were told.

If a wealth tax is placed on stock holdings, the wealthy will hold fewer stocks, driving down the price and new investment. If a wealth tax is placed on private businesses (many of them family owned), the owners are likely to move part of their assets elsewhere and the government's tax base will shrink year by year. If the government puts a wealth tax on luxury second homes — the wealthy will sell again, driving down the price and the tax base, and perhaps choose to buy or rent in low-tax jurisdictions around the world.

Ah, but Elizabeth Warren has an answer to capital flight — a 40 percent exit tax. The old Soviet Union had exit taxes, which most people correctly considered evil. Clearly, she sees the American people as tax slaves to serve the interest of the government class. The American Founders believed government was a necessary evil and therefore should be kept to a minimum to protect liberty, property and person.

The tragedy of our time is that all too many in the press treat these candidates as serious people with serious proposals — wrong on both counts.

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