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Democratic candidates for President in 2020 have put forth numerous innovative policy proposals. One of these is a tax on wealth (the Wealth Tax). Bernie Sanders's plan called for a 2% annual tax on net worth between \$50 million and \$1 billion, 4% on net worth between \$1 billion and \$10 billion, and 8% on net worth above \$10 billion. The primary stated objectives of the Wealth Tax are to be to generate additional tax revenues and reduce measured inequality. Assuming that such a tax is put into law and successfully implemented, both objectives seem within reach, at least initially. For example, currently the richest person in the US is Jeff Bezos, reportedly worth \$150 billion. Under the Sanders plan, Bezos would pay approximately \$11.5 billion during the first year. In order to generate \$11.5 billion of cash to turn over to the government, Bezos would have to sell substantially more than \$11.5 billion worth of stock. This is because the realized gain on sale would be subject to the capital gains tax rate and the 3.5% Obama investment tax. Fortunately for him, the state of Washington does not currently have an income tax. I estimate total taxes paid by Bezos under the Sanders plan would exceed \$24 billion in year one. In subsequent years, unless Jeff achieves a pre-tax rate of return exceeding 18% (which is highly unlikely, even for him), his fortune will steadily decline, and so will his tax bill. An unstated purpose of the wealth tax is to get rid of mega-billionaires. Over time it would have this effect.

According to Forbes Magazine, the threshold for the top one hundred richest people in the U.S. is \$5 billion. I call this group the "mega-billionaires." They have total wealth of approximately \$1.5 trillion. Under the Sanders tax, these mega-billionaires would pay approximately \$80 billion during the first year, for an effective tax rate of just over 5% (ranging from 7.7% for Bezos down to 3.6% for the poor fellow with just five billion). Subsequent year revenues would vary depending on the rate of return on capital. If we take 5% as a reasonable assumption for the average annual rate of return, I calculate that over the next 25 years total wealth for these mega-billionaire families will decline by more than 60% under the Sanders Tax. Tax proceeds will also decline, but probably not as much because successful entrepreneurs will create new fortunes that will

be subject to the tax. The likelihood of declining revenues over time suggests that this is not a particularly useful tax for funding new spending initiatives, like the Green New Deal or Medicare-For-All. Again, the real reason for the tax is No More Mega-Billionaires!

Economic Consequences

As the fortunes of extremely rich people recede, some measures of wealth inequality will probably decline (for example, the share of total wealth owned by the richest .0001%). Some commentators see this as unambiguously positive for a variety of reasons. French economist Thomas Piketty has warned of a dark future in which increasing concentration of wealth results in undue political influence and an “heiristocracy” whereby undeserving offspring of billionaires become the dominant class. In Piketty’s story, fortunes more or less automatically increase over time.

I don’t see this happening. There is significant downward mobility among the .0001%. For example, it has been reported that among the many descendants of Cornelius Vanderbilt, the richest man in the world in 1870, there is not a millionaire in the bunch. It is almost as hard to remain in the .0001% as it is to get there in the first place.

Meanwhile, rich people make significant contributions to the economy. For one, first generation billionaires are generally entrepreneurs who came up with new products or innovations that were highly valuable to millions of customers. Second, billionaires generally have high savings rates. They provide a large share of the funding for real investment by new and existing companies. Third, they support new industries by being the guinea pigs to buy new products with marginal capabilities at outrageous prices (think of the 1980s cell phone that cost \$3,000, was one foot long, weighed three pounds and had very few capabilities). Similarly for electric cars, solar panels and smart watches. Finally, many billionaires fund useful research projects and charitable giving. Think of the Gates Foundation efforts to kill malaria and to develop clean and safe nuclear power. Or James Simons, founder of Renaissance Capital, funding research into pure mathematics.

The real question, it seems to me, is whether you believe that the capital amassed by mega-billionaires is better managed by them or by bureaucrats and politicians.