Wealth Taxation

Comment
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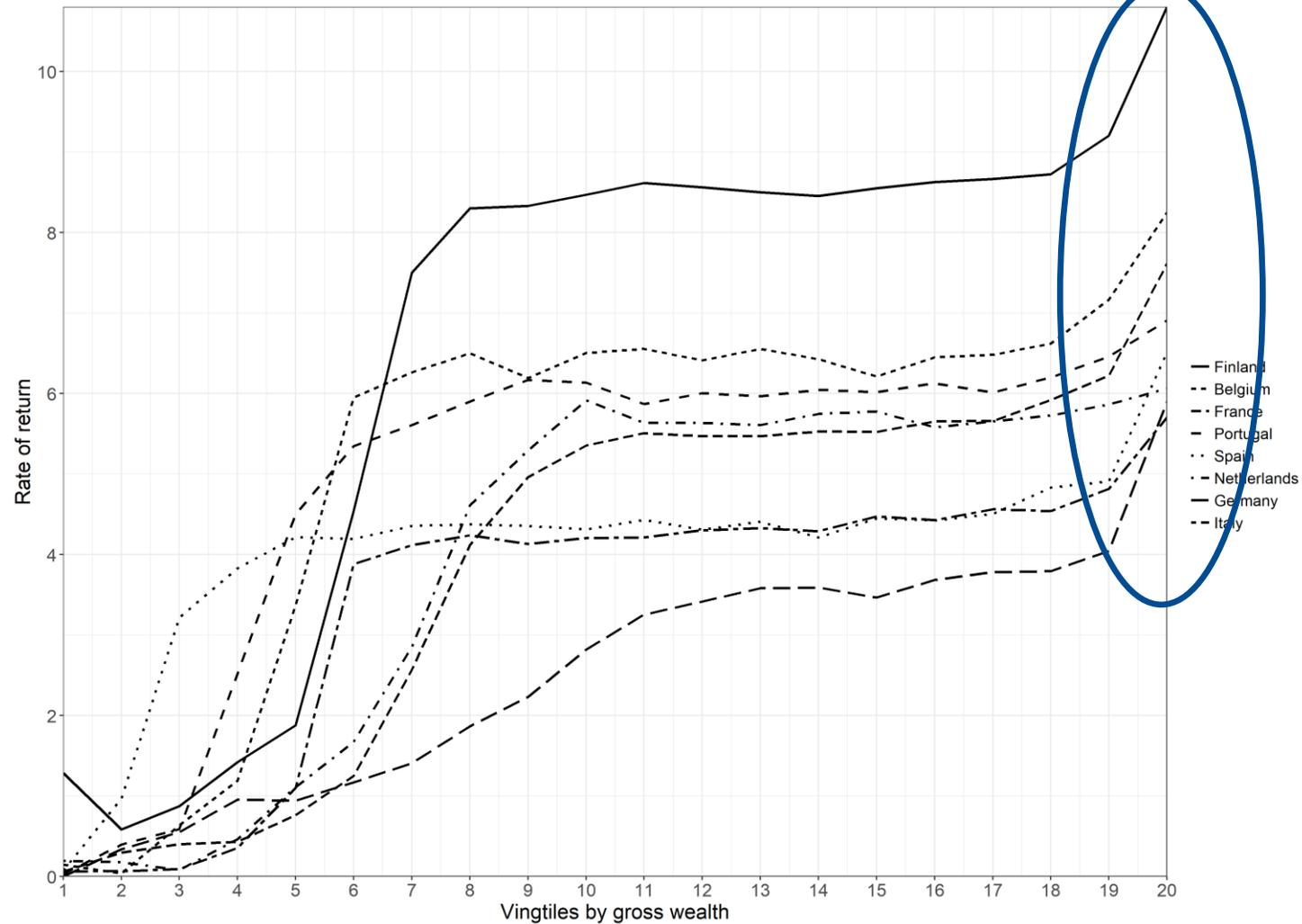Twitter: @MiriamRehm

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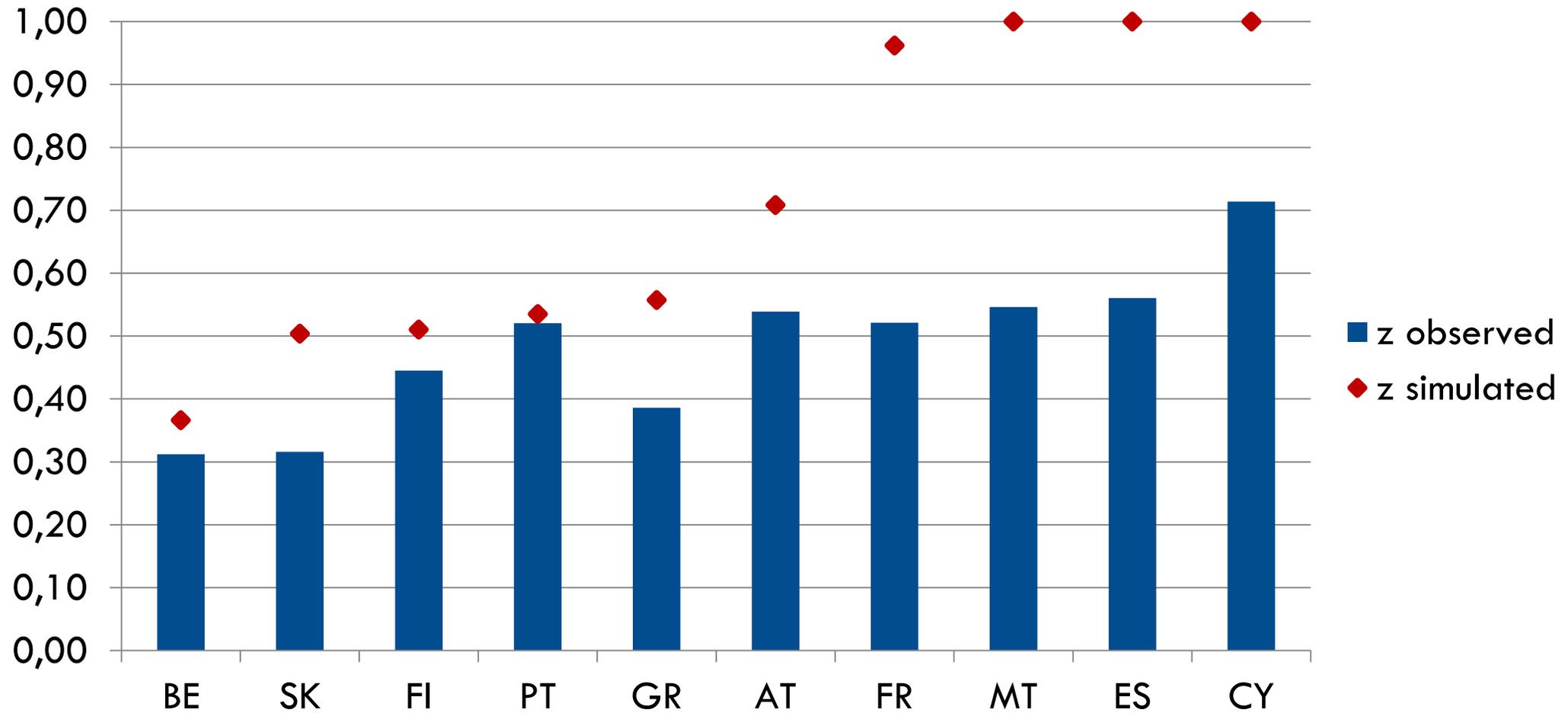socio-economics

Overview

1. Wealth inequality is high + likely to rise further

2. The public supports wealth taxes

3. Then why are they not introduced?

Differential rates of return across wealth vingtiles (EU)

Source: Ederer, Mayerhofer, Rehm (2019), data: HFCS 2014

Post-Keynesian model of wealth distribution (EU)

Source: Ederer, Rehm (2019), data: HFCS 2010, EHBS 2010

Public support for a net wealth tax

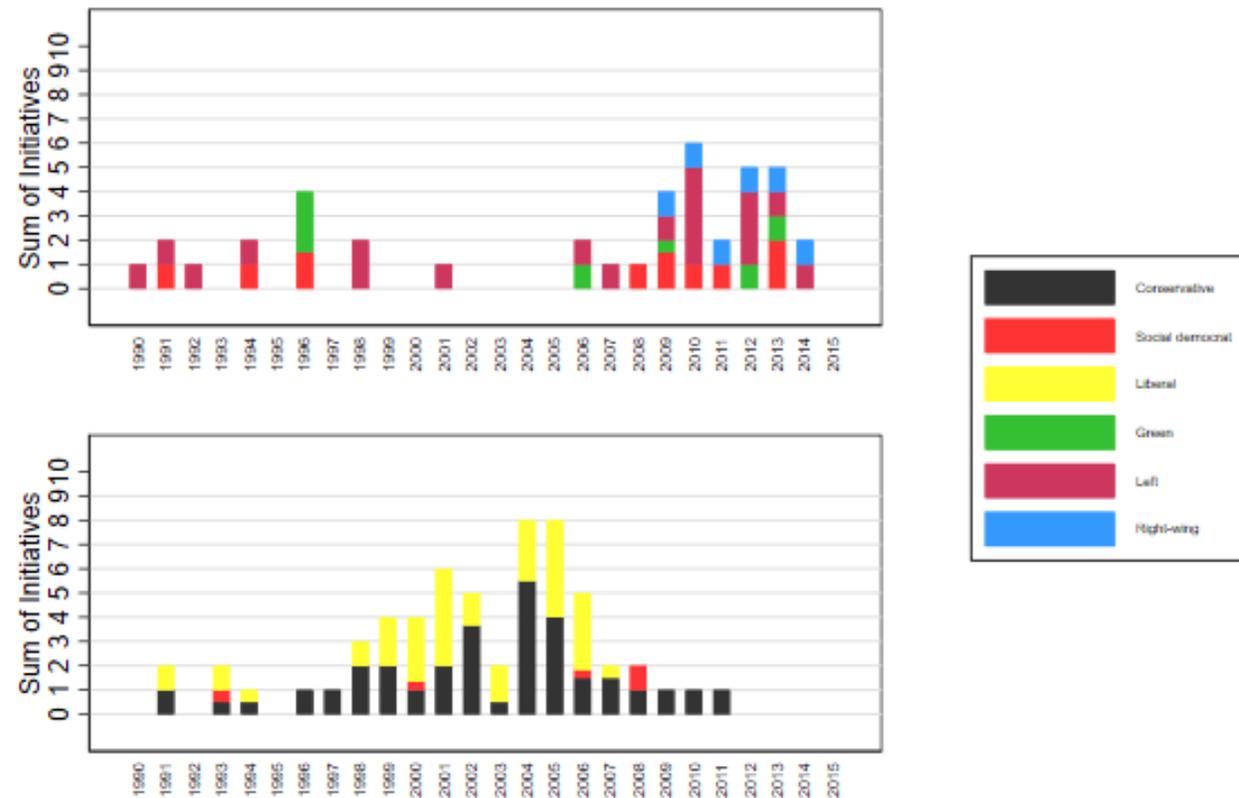|	% in favor	Number of surveys (year range)
Austria	70.9	12 (2009-2016)
Germany	62.5	11 (2006-2015)

Source: Elsässer, Fastenrath, Rehm (2022)

Yet, few net wealth taxes introduced after the economic + financial crisis of 2008/9

Not for lack of trying… (after the 2008/9 crisis)

Parliamentary motions introduced in favor (top) and against (bottom)
net wealth taxes in 11 European countries

Source: Elsässer, Fastenrath, Rehm (2022)

Then why no wealth taxes?

- Process tracing after the crisis of 2008/9: Spain, Austria, Germany

- In these cases, large center-left parties were key:

  1. Left faction needs to initiate an intra-party struggle (policy-seeking base vs. office-seeking leadership)

  2. Leadership needs to change course to view wealth taxation as electorally promising (credible signal for a left-wing turn);
     Including perceiving public opinion as favorable and topic as salient: economic crisis!

  - Not necessary conditions: absence of vocal anti-tax lobbies, single-party government, economic crisis, absence of veto players (e.g. high court)

Conclusion

- Wealth is very unequally distributed, and this inequality is likely to rise further (differential returns, macro model)

- Strong public support for net wealth taxes in Austria and Germany

- Yet, few wealth taxes: Political power!

- Wave of parliamentary motions introduced (not passed!) in favor of net wealth taxes after the 2008/9 crisis

- Qualitative research to open the black box of political parties in qualitative research: Intra-party struggle within large center-left parties

Thank you!

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Study Questions

1. What are key stylized facts of the distribution of income and wealth?

2. Is the current level of inequality in income and wealth a problem? If so, which policy measures could effectively curb inequality?

3. How can the focus on growth in the wage-/profit-led literature be squared with the ecological need to limit growth?

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Appendix

Case selection and logic of comparison

	Most different system design		Most similar system design
	Spain	Austria	Germany
Coalition constraints	No	Yes	Yes
Corporatism	No	Yes	Yes
Deep crisis induced economic and social consequences	Yes	No	No
Strong electoral competition from the left	No	No	No
Pressure from left wing	Yes	Yes	(Yes)
Leader perception electorally promising topic	Yes	Yes	No
Outcome: Increase WT	Yes	Yes	No

Source: Elsässer, Fastenrath, Rehm (2022)

The model

- Income is divided between wages and profits (profit share π);
  wage income is divided between workers and capitalists/managers (α);
  differential saving rates (s_w, s_r) and differential rates of return ($γ_w$, $γ_r$)
  (wealth shares held in profit-generating assets)

$$Y_w = (1 - α)W + \frac{γ_w(1 - z)}{γ_w(1 - z) + γ_r z}R, \qquad Y_r = αW + \frac{γ_r z}{γ_{w(1-z)} + γ_r z}R$$

- Workers and capitalists consume and save out of their income

$$C = (1 - s_w)Y_w + (1 - s_r)Y_r$$

- The wealth distribution (share of capitalists z) is $z = {V_r}/{V}$

Transaction flow matrix

	Households		Firms			
	Workers	Capitalists	Current	Capital	Banks	Total
Consumption	$-C_w$	$-C_r$	$+C$			0
Investment			$+I$	$-I$		0
Wages	$+W_w$	$+W_r$	$-W$			0
Profits	$+R_w$	$+R_r$	$-R$			0
Equity	$-\gamma_w \Delta V_w$	$-\gamma_r \Delta V_r$		$+\Delta E$		0
Deposits	$-(1-\gamma_w)\Delta V_w$	$-(1-\gamma_{w)}\Delta V_w$			$+\Delta D$	0
Loans				$+\Delta L$	$-\Delta L$	0
Total	0	0	0	0	0	0

Source: Ederer, Rehm (2019)

Data

- Household Finance and Consumption Survey (HFCS)

- Capitalists defined following Rehm, Naqvi, Hofmann (2017):

  - Top 1 percent wealth owners

  - Medium and large business owners (> 5 employees)

  - Capital income higher than average work income

- Workers: employment status

Empirical values of model parameters

	s_w	s_r	π	α	γ_w	γ_r
Austria	0.05	0.23	0.38	0.07	0.40	0.92
Belgium	0.10	0.29	0.34	0.02	0.59	0.85
Cyprus	0.00	0.10	0.37	0.18	0.81	0.96
Spain	0.00	0.07	0.41	0.10	0.53	0.90
Finland	0.12	0.39	0.37	0.02	0.55	0.93
France	0.01	0.29	0.37	0.05	0.57	0.97
Greece	0.05	0.13	0.34	0.05	0.25	0.90
Malta	0.00	0.26	0.46	0.03	0.59	0.98
Portugal	0.13	0.33	0.41	0.04	0.42	0.90
Slovakia	0.18	0.30	0.44	0.05	0.20	0.83

Note: Columns refer to (1) saving rate of workers, (2) saving rate of capitalists, (3) profit share, (4) share of capitalists in the wage bill, (5) share of workers' wealth held in profit-generating assets, (6) share of capitalists' wealth held in profit-generating assets
Source: Ederer, Rehm (2019); Data: HFCS 2010, EHBS 2010