Discussion of *The Macroeconomic and Distributional Effects of Progressive Wealth Taxes*

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The Paper in One Slide

- Proposals for wealth taxes (note: France, Norway have them)
  - Piketty (2014) proposes tax on the stock of wealth
    - Rate of 1% between 1-5 million Euro
    - Rate of 2% above 5 million Euro
    - Rate of 5% or 10% above 1 billion Euro
  - Idea not new, not even for the US: *I would propose a one-time 14.25% wealth tax on individuals and trusts with a net worth over $10 Million*

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  - Idea not new, not even for the US: *I would propose a one-time 14.25% wealth tax on individuals and trusts with a net worth over $10 Million* (President-elect Donald J. Trump in 1999)
- This paper: evaluates aggregate, distributional, welfare consequences of progressive wealth tax proposed by Piketty:
  - Heterogeneous household macro model
  - Calibrated to the U.S., but with extreme income states
  - Introduce wealth tax described above (and reduce income tax)
  - Compare steady states and analysis tax-induced transition path

Basic Results

- Public finances:
  - Wealth tax raises revenue worth 2.4% of GDP (10% of tax revenue)
  - Reduces average income tax rate by 2.5%
- Aggregates
  - Wealth tax strongly reduces savings incentives to become wealthy
  - Steady state changes in aggregates

Variable	K	N	Y	C	w	$(1-\bar{\tau})w$
% Change	-13.2%	-1.1%	-5.6%	-2.9%	-4.6%	-0.2%

- Distribution
  - Large reduction in top wealth (and consumption) shares

Percentile	Top 1%	Top 10%	Gini
PP Change Wealth	-11.3	-7.3	-4.7
PP Change Consumption	-2.7	-2.1	-2.2

- Welfare
  - Steady state: aggregate welfare improves: a) holding wealth fixed, most households lose but b) less low wealth households
  - Transition: C boom on impact, but only for very wealthy.

Main Comments I: Specifics of Analysis

- Economic model makes sense, but need to buy the mechanism for high earnings and implied high wealth inequality.
- Welfare analysis less convincing (thus far):
  - Steady state analysis can be misleading: gains of wealth taxes all come form increased wealth of households at bottom.
  - These gains have to be paid for by lower c along the transition.
  - Report distribution of welfare consequences from reform, including transition. You have value functions $v_0(s), v_1(s)$ for households of all characteristics s.
  - If aggregate welfare measure is desired, need social welfare function.

Main Comments II: Broader Comments

- Why this reform? Seems arbitrary (with all due respect to Piketty). Optimal reform?
- Do you have the right model of top wealth concentration (extreme earnings realizations)?
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    - Progressive labor income tax (see first paper) instead of wealth tax.
    - Achieves same reduction in wealth inequality, but less detrimental effects on macro aggregates.
    - Ultimate optimality criterion: welfare!

- Better case for wealth tax: one-time surprise wealth levy (of course with commitment to never do it again)...

Main Comments III: Implementation of Wealth Taxes

- Capital flight? Perhaps a global wealth tax. This paper has a closed economy.
- Determining comprehensive net worth of the wealthy is hard. How do you value vehicles, boats, real estate, private businesses?
- Administrative nightmare: need comprehensive data set on net worth holdings of households.
- James Galbraith (on Piketty's proposal): *To begin with, in a world where only a few countries accurately measure high incomes, it would require an entirely new tax base, a worldwide Domesday Book recording an annual measure of everyones personal net worth. That is beyond the abilities of even the NSA. And if the proposal is utopian, which is a synonym for futile, then why make it? Why spend an entire chapter on itunless perhaps to incite the naive?*
- But: would give rise to fantastic data! See e.g. Norway (papers by Fagereng, Guiso, Malacrino & Pistaferri)

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- Donald, R U Listenin' ?
- Structural, model based approach allows to study aggregate, distributional and welfare impact of multitude of policy reform proposals. Not just Piketty's.

THANK YOU