Wealth and taxes, parts I to V

The Grumpy Economist

John Cochrane's blog

[https://johnhcochrane.blogspot.com/]

Thursday, January 2, 2020

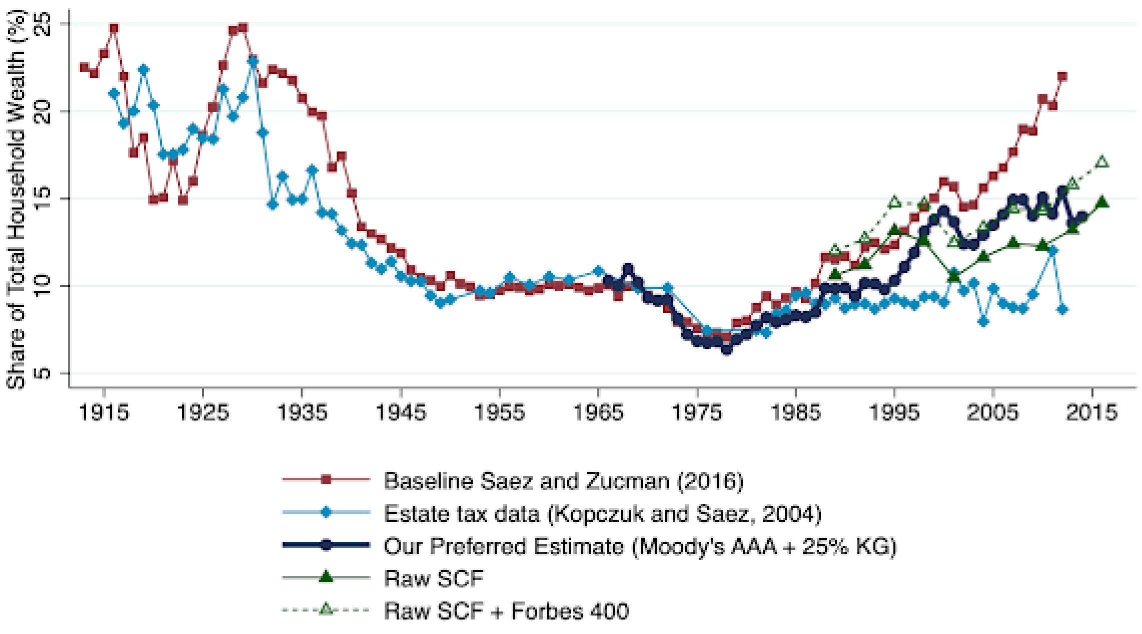
Wealth and taxes, part I

Last November I had the pleasure of discussing "Top Wealth in the United States: New Estimates and Implications for Taxing the Rich" a very nice paper by Matthew Smith, Owen Zidar and Eric Zwick at the NBER asset pricing meetings, presented by Eric. The paper prompts a series of blog posts on wealth distribution and wealth taxes. I'll try to stick to points that haven't been made a hundred times already.

The paper mostly examines Saez and Zucman's 2016 QJE paper on wealth inequality. As many others have found, the Saez Zucman numbers are, ... let's say somewhat overstated.

Figure A.2: Wealth Concentration in the United States, Ranked Using Preferred Capitalization Method

A. Top 0.1% Share of Total Wealth



Their bottom line is to cut Saez and Zucman in half. As I read the paper I think this is conservative -- and when we ask the obvious questions that the whole enterprise begs to be asked (which Smith et al don't do, but I will) a chasm of emptiness opens up, and the questions end up emptier than their answers.

The first thing you have to understand is the nature of wealth. Here is most people's impression of what wealth is:

That's not it at all. As Zwick et al say,
“Less than half of top wealth takes the form of liquid securities with clear market values”

So, the question is how do we measure the "wealth" that is not liquid securities with clear market values, like the profits of privately owned businesses? And, given that there is not US data on wealth (yet, thank goodness), even the part that is a security is hard to measure.

Enter "capitalization." The main idea in Saez and Zucman, reexamined by Smith et al., is that we measure "wealth" by measuring income, and then translating that income to wealth by assuming it will last forever and discounting it at some rate. In equations

Wealth = Income / discount rate

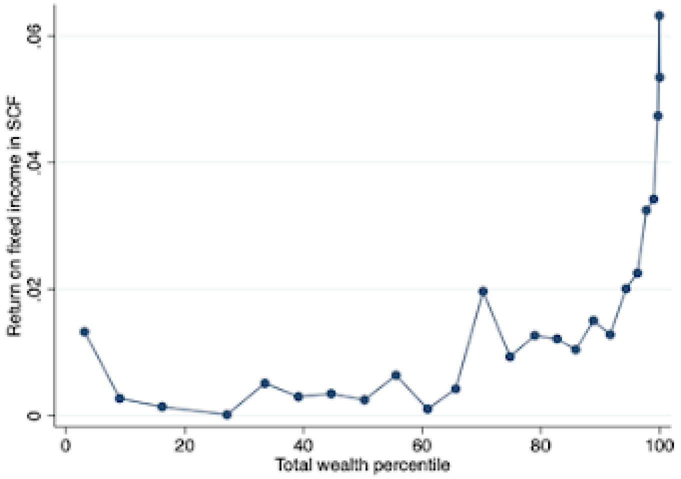
We have data from the IRS on income. So, let's follow along on Zwick et al.'s best story, how we find wealth invested in bonds from IRS individual interest income data and total bonds outstanding data:
“In 2014, the aggregate flow of [taxable] interest income was $98B, and the stock of fixed income wealth was $11T. The ratio gives the average yield, r = $98B/$11T = 0.89%. Using this yield to capitalize income amounts to multiplying every dollar of interest income by 1/0.89% = 113 to estimate fixed income wealth. … Implementing equation (4) for fixed income gives an estimate of top fixed income wealth of $42B × 113 = $4.7T of fixed income wealth held by the top 0.1%. The bottom 99.9% estimate is $56B × 113 = $6.4T .

My emphasis.

You may have wondered, if we're just going to mulitply income by a number and call it wealth, why are we bothering to measure the wealth distribution at all? Let's just use the income distribution! You get one answer here -- if you call it wealth you get to multiply by 113! Since only some kinds of income get this treatment, kinds that are more likely to be held by wealthy people, that makes the numbers look much more unequal.

Smith et al's point though is not this basic one. Rather they look carefully at the calculation. This calculation assumes that all "fixed income" assets pay the same, low, rate of interest. Another well established fact is that rich people get better rates of return on their assets.

B. Rates of Return for Fixed Income Assets



Here is Smith et al's plot of the actual rate of return that people earn on their fixed income investments. The uber wealthy earn 6% on their fixed income investments. This is not a small effect. In our capitalization factors, wealth = income / discount rate,

$$1/0.01 = 100$$
$$1/0.06 = 16.7$$

Changing from a 0.01 discount rate to a 0.06 discount rate pulls the wealth estimate per dollar of income down from 100 to 16.7. That's a lot. Smith et al:
“the adjustment reduces the top capitalization factor—and thus estimated top fixed income wealth—by a factor of 4.7, or 80%”

This is huge, to say the least.

(Note the irony. People who worry about wealth inequality are usually bemoan the fact that rich people earn higher returns on average than not so rich people, as it apparently will make inequality worse over time. But the same higher average return *must* mean a lower multiples for converting income to wealth. You just can't have it both ways.

Higher returns are not some evil plot. The largely come from the fact that rich people buy riskier assets, like stocks and junk bonds, and less rich people buy safer but lower yielding assets like bank accounts. OK, It is to some extent a plot. Lots of regulations prohibit lower income people from buying the kinds of assets that make rich people richer in the name of consumer protection. The SEC is loosening some of these regulations.)

Beyond fixed income, the capitalization game gets even muddier, in both papers. What income flow are you going to capitalize?
“In the case of C-corporation equities, the income flow is dividends plus [realized] capital gains."

I think that's an accounting mistake, common in this literature. You cannot take the realized capital gains as an "income" flow for capitalization purposes. Suppose you buy a stock for $1, and it grows to $100. You sell $10 of the stock, but now you only have $90 left. You can't keep doing this forever, as the capitalization assumes. That's fundamentally different than the company is worth $100, makes a $10 profit and gives you a $10 dividend. I'll be curious to hear from better accountants than I whether you can sensibly capitalize realized capital gains.
Onwards...
For S-corporation equities, the income flow is S-corporation income. For proprietor and partnership wealth, the income flow is the sum of proprietor income and partnership income [“capital” income?]. In the case of real estate, property tax is capitalized to estimate housing assets ….”

Ok, that's income, what is the discount rate?

“Private business returns are harder to estimate than fixed income returns because private business wealth is harder to observe than fixed income wealth…We focus on multiple-based valuation models”

So we go from multiples to estimate a multiple... This all seems rather circular.

The bottom line? The game, as announced by Saez and Zucman is this: We start with the pretax value of “capital” income, including asset income, proprietor income and partnership income, but not labor income (wages, bonuses, etc) or social security income. We multiply by various huge 1/r numbers to call them "wealth". By doing that and using low r numbers, the "wealth" distribution looks much more extreme than the income distribution. As you can see the 1/r assumption allows great latitude in how this calculation is going to come out.

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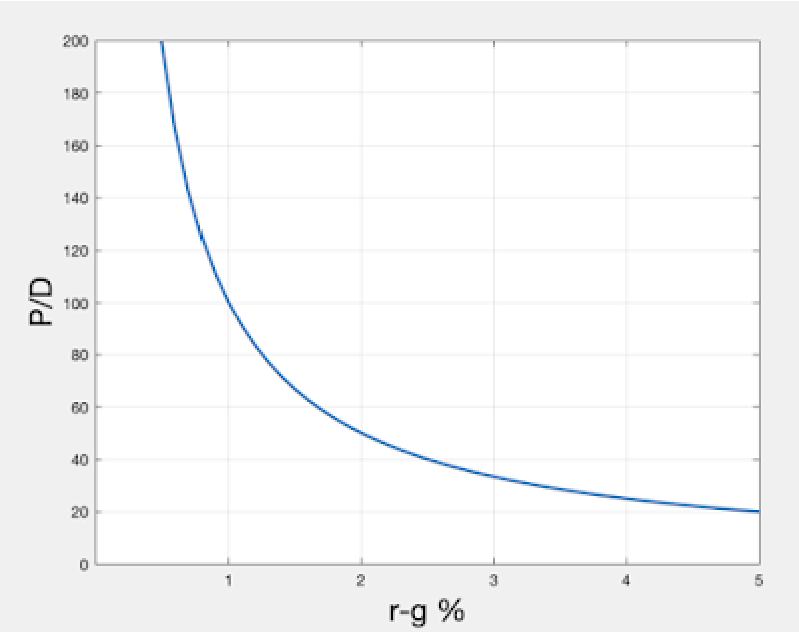
I spent a lot of time in asset pricing, and this paper was presented at an asset pricing meeting, so let me offer a little bit of what asset pricing has to say about these kinds of procedures.

The real capitalization formula is

$$P/D = 1/(r-g)$$

the price - dividend ratio is equal to one over the difference of the discount rate and the growth rate of dividends. Shhh! If the wealth inequality crowd realizes they can subtract g their multipliers will explode! (Joke. Of course we always use the right numbers)



The function 1/(r-g) is very sensitive to r and g, especially for low discount rates like the 1% we were using for bonds. Going down from 2% to 1% doubles the value. So, if you want to fiddle with values, fiddle with discount rates.

The right discount rate is much higher for risky assets than risk free assets. Lots of people discount things with stock market risk using interest rates, and get absurdly too high values.

If you put the 20 best financial economists in the world together in a room, gave them all of a company's cash flow information, they could not come within a factor of 3 of the actual stock market value. "Valuation" mostly consists of fiddling with discount rates to get the "right" answer. Maybe "multiples" isn't so bad after all.

In short, capitalizing income to get any sense of "wealth" is an inherently... absurdly imprecise game.

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I don't mean to sound critical of Smith et al. They're doing the best they can given the Zucman and Saez rules of the game. But a little peek into this sausage factory should leave you wondering, just why are these the rules of the game? Why do we care (should we care) so much about the distribution of something that is essentially impossible to measure or define? If you are making money was a partner in an LLC you help to run, why should anyone care about a fictitious accounting "value" of that partnership? You can't sell it!

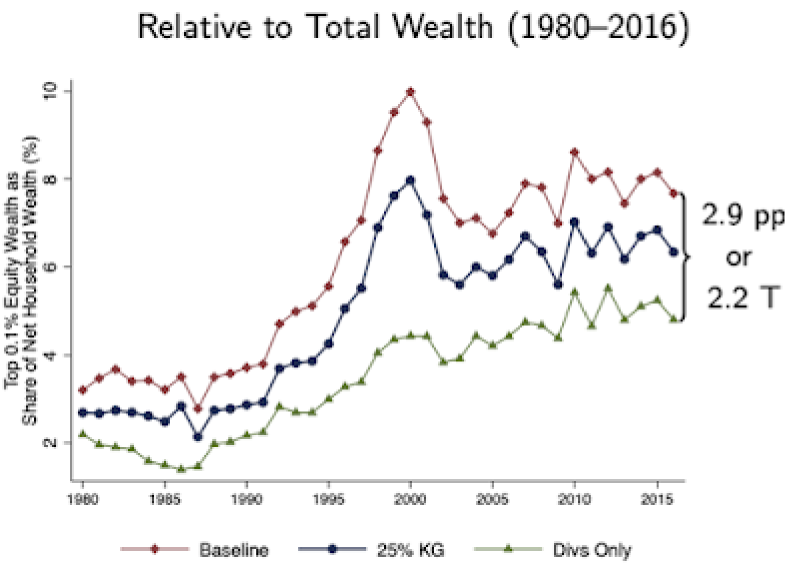
Why start with pretax income? If you pay half your income in taxes, does that not halve the value of the asset? Why does "wealth" include the value of proprietor and partnership income but not labor income or social security income?

These are good questions for the next few blog posts.

Friday, January 3, 2020

Wealth and Taxes, part II

A second asset pricing perspective helps us to digest "wealth," its distribution, and whether we should care.



Here is another Smith, Zidar and Zwick graph showing the top 0.1% share of wealth (as they define and measure wealth). (Reminder. The game here is to start with selected income streams, then divide them by a rate of return to produce large wealth numbers. \$100 income / 0.01 interest rate = \$10,000 of wealth.) The "baseline" case capitalizes realized capital gains, which I argued last time was a pretty crazy thing to do. The bottom line treats only dividends. If dividends are properly measured, the value of the firm is the value of dividends only and repurchases are irrelevant.

The graph makes the obvious point that "capitalizing" capital gain "income" is an important assumption to driving up the appearance of wealth inequality.

But it makes a deeper point, my focus today. The top graph is pretty much the graph of the S&P index. This illustrates visually a deeper point:

- *A lot of the rise in "wealth," and "wealth inequality," even properly defined and measured as the market value of net assets, consists of higher market prices for the same underlying physical assets. In turn, higher asset prices stem almost entirely from lower real interest rates and lower risk premiums, not from higher expectations of economic growth.*

This raises a deep "why do we care" question. Suppose Bob owns a company, giving him $100,000 a year income. Bob also spends $100,000 a year. The discount rate is 10%, so his company is worth $1,000,000. The interest rate goes down to 1%, and the stock market booms. Bob's company is now worth $10,000,000. Hooray for Bob!

But wait a minute. Bob still gets $100,000 a year income, and he still spends $100,000 a year. *Absolutely nothing has changed for Bob!* The value of his company is "paper wealth."

We compare Bob to Sally, who earns $100,000 per year wages and has no assets. The distribution of income and of consumption is entirely flat. But the distribution of wealth was already concentrated: Bob had $1,000,000 of wealth, because we ignored Sally's human wealth, the present value of her salary. Now wealth inequality is 10 times worse, because we also ignore the higher capitalized value of Sally's human wealth.

But why should we care? Bob and Sally are both marching along unchanged.

Well, you say, I just assumed Bob didn't change consumption. He should sell some stock and go out on a round-the-world private jet tour. Or, what gazillionaires really do, he should start a foundation and give it away. But Bob won't do that for a simple reason. Originally, he wanted to spend $100,000 per year. Originally, if he sold his company for $1,000,000 and invested it at 10%, he could spend $100,000 per year. Now if he sells his company for $10,000,000, he can only invest that at 1% per year so the most he can spend is still $100,000!

People don't want to consume in one big spurt. They want to spread consumption out over their and their heirs lifetimes. When the interest rate goes down, it takes more wealth to finance the same consumption stream.

- *Consumption should not respond (much) to increases in wealth generated by lower discount rates for the same cashflows.*

The present value of liabilities -- consumption -- rises just as much as the present value of assets. This is a rather deep point that gets lost all too often in the static Keynesian consumption function thinking about "wealth effects of consumption" that still pervades macroeconomics.

If the rise in asset value is because people expect the income stream to grow a lot in the future, at unchanged discount rates, then indeed Bob is truly more "wealthy" than before. But that is emphatically not the situation of today's market value of wealth in the US, at least on average. If you think internet companies have enormous stock values because their profits will continue to grow at astronomical rates, I have some 1999 dot com stock to sell you.

(A refinement: lower real interest rates do generate a "substitution effect." You should rearrange consumption to be earlier in time rather than later in time. But the central point is that the lower interest rate does not have a "wealth effect." Though the asset is worth more, you cannot consume more in every year than you could before. The original flat consumption path is still just affordable.)

Now there are good questions to be asked about the distribution of consumption, and in particular lifetime consumption. If Bob averages $100,000 consumption over his life, and Sally only $10,000 that's an interesting observation about our society and we might want to think about the economics, politics, justice if you wish and so forth of the situation. But why should we worry about an increase in mark-to-market "wealth" that has no implications for the overall command over resources that "wealthy" people have?

Is this a big effect? Yes. Here is a simple plot of real interest rates, computed as the 10 year bond rate less the university of Michigan inflation survey. It declines from nearly 10% to negative numbers. (If you want to make "wealth distribution" look bad, start capitalizing incomes dividing by zero and then negative numbers!)

In sum, much of the increase in "wealth inequality," to the extent it is there at all, reflects higher market values of the same income flows, and indicates nothing about increases in consumption inequality, or if you prefer "command over resources."

Just why should we carte about wealth inequality? Obviously, many smart people are very animated by it, including apparently about half the job market candidates on this year's PhD market. What is the question to which wealth inequality is the answer? Stay tuned for part III..

(Note: As a commenter on the last post pointed out, Larry Summers made this point in the excellent
Saez Summers Mankiw debate about wealth and taxes.)

Sunday, January 5, 2020

Wealth and Taxes, Part III

So, why do we care about the distribution of wealth? -- Especially, as we learned in part I that wealth is poorly defined and poorly measured, and we learned in part II that much of the distribution of "wealth" reflects higher market prices for the same assets, which do not increase their owner's ability to consume over a lifetime? Why so much anger, even from commenters on this blog?

- *Why wealth inequality not income inequality or consumption inequality?*

There already has been much ballyhoo about income inequality. Why worry, separately, about wealth inequality? Why worry, especially, given that "wealth" is measured as income / discount rate, so it *is* income inequality? Well, not really -- it is only certain kinds of income inequality, and different kinds of income get multiplied by different large numbers (1/r). But why do we casre about this particular kind of weighted income inequality rather than broad income inequality?

Why do we worry about wealth inequality or income inequality rather than consumption inequality in the first place? If you're worried about inequality of lifestyle, inequality of who is using the planet's resources, and so forth, you want to think about consumption inequality.

In the popular imagination these are all the same. In fact and data they are vastly different. Income varies a lot from year to year, especially among the risk-taking wealthy. One year's income is a very distorted measure of lifestyle inequality. Taxes, transfers and savings buffer consumption from income. Most wealthy people leave their wealth invested in companies or give it away slowly through charitable foundations, so wealth does not translate to consumption, both in fact and in the theory I outlined last time. The popular imagination just doesn't comprehend how immense a billion dollars is -- it's really impossible to "consume" any substantial fraction of this much wealth. So, in fact, most super-wealthy people reinvest almost all their income in their businesses or in new businesses just by default, and then give it away. Why is this a crime?

But consumption inequality is vastly less than income inequality, which is vastly less than wealth inequality. And I know of no evidence that consumption inequality is increasing. So why worry about wealth inequality, or income inequality, above and beyond consumption inequality?

So, what *is* the question to which wealth inequality, as defined by Saez and Zucman, and wealth taxation, as advocated by Saez and Zucman and company is the answer? Saez and Zucman even write:
...carefully measuring its wealth is important. The public cares about the distribution of economic resources,

Well, the "distribution of economic resources" is consumption or lifestyle inequality, not wealth inequality.

The question cannot be concern over lifestyle inequality. If you care about lifestyle inequality it makes no difference at all whether a high-consumer gets that consumption from inherited wealth, self-made wealth, from annual income, or from transfers from family members. Wealth inequality, above and beyond consumption inequality, is meaningless. So what is it?

A cynic would say Saez and Zucman focus on income inequality first, wealth inequality later, and make the measurement choices they do, because at every stage of the game these choices make the numbers look more unequal and divergent over time. We saw that last time with the choice to use the same absurdly low interest rate for all fixed income investments, even though the wealthy earn much higher returns -- and how this boosted their measured wealth by a factor of 4.

But in service of what are they putting an elephant's foot on the scale? Well, obviously a wealth tax. They're up front about that. And the larger wealth "inequality" can appear to be, the larger their argument for a wealth tax. But given that we are not addressing lifestyle inequality with the wealth tax, just what is the argument? So as usual in much political economics the answer comes first and the question keeps changing.

Spoiler: The answer is not that well hidden. Saez and Zucman's answer is explicitly political. They want a wealth tax in order to take away what they perceive as excessive political power of wealthy people. Big wealth inequality numbers serve that cause. This has nothing to do in the end with economics. We ought to be more upfront and debate the real point.

We'll get to all that in parts IV and Vt. Let us return to asking why of each of the choices made by Saez and Zucman, of which Smith et al only quibble with measurement. Why accept these rules of the game?

- *Why take the present value of "capital income" only*

But suppose a lawyer, superstar surgeon, or CEO earns $1,000,000 per year directly. Why multiply partnership income by 1/r to call it "wealth" but not multiply this income by 1/r and call it "wealth" too? Why not include human capital as wealth? Especially since many small businesses and partnerships are worthless without their owners or partners participation?

Saez and Zucman define wealth as
"the current market value of all the assets owned by households net of all their debts...Our wealth concept excludes human capital, which, contrary to non-human wealth, cannot be sold on markets."

Smith et al. echo this definition:

For aggregate wealth, we follow Saez and Zucman (2016) in defining wealth as total assets minus liabilities of individuals at market value, excluding durable goods, unfunded defined benefit pension plans and Social Security, non-profits, and human capital.

- *OK then, why not just "marketable" wealth?*

Well, there is perhaps a certain logic to that, especially given the eventual political agenda. Although people don't want to sell their assets, perhaps it's interesting to know how much they could get if they decided to do so.

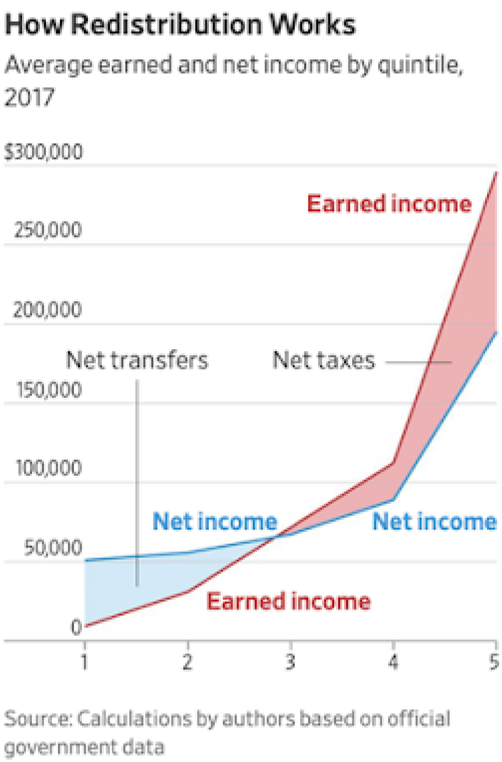
But the "marketable" test vanishes quickly. Already they include funded pensions, and other claims backed by assets which people can't sell. And then they start capitalizing private business and partnership income, which looks economically just like labor income.

In addition, as we have seen time and again, the separation between "capital income" and "labor income" is slippery, and people are really good at reclassifying one as the other in response to changes in the tax code.

- *Why take the present value of pretax income?*

All of these calculations take the present value of pre-tax income! If you earn $100,000 per year, you pay $50,000 in taxes each year, what possible sense does it make to say your "wealth" is $100,000/r not $50,000/r?

- *Why ignore transfers and taxes?*



Phill Gramm and John Early made the above graph in the Wall Street Journal contrasting the distribution of pre and post tax and transfer income.

"Government transfers provide 89% of all resources available to the bottom income quintile of households and more than half of the total resources available to the second quintile.

In all, leaving out taxes and most transfers overstates inequality by more than 300%, as measured by the ratio of the top quintile's income to the bottom quintile's. More than 80% of all taxes are paid by the top two quintiles, and more than 70% of all government transfer payments go to the bottom two quintiles."

Or, from [Gerald Auten and David Splinter]

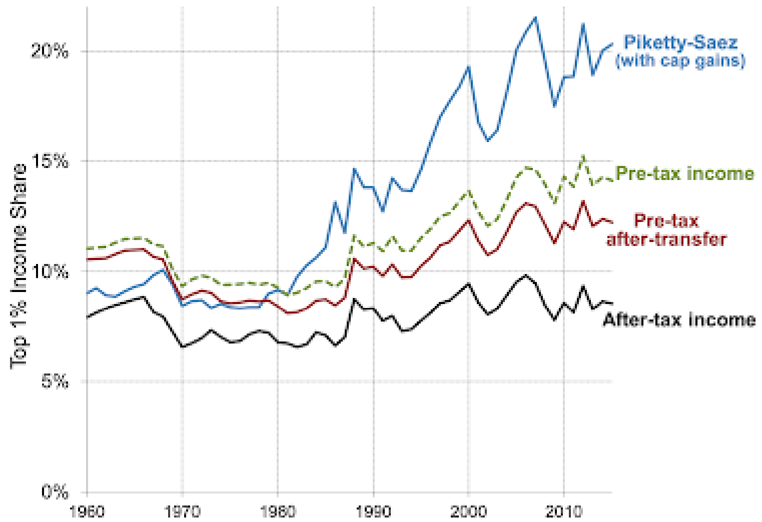


Figure 3: Comparison of top 1% income shares
Notes: Piketty and Saez series includes capital gains (thresholds set without capital gains). Adjustments used to estimate pre-tax, pre-tax/after-transfer, and after-tax income are listed in Tables 1 and 2 and described in detail in the online appendix.
Sources: Authors' calculations and Piketty and Saez (2003 and updates).

Well, obviously, leaving taxes and transfers out makes the "problem" look a lot worse. And maybe we're moving on to wealth inequality because the rising income inequality narrative is falling apart.

But leaving out taxes and transfers is even more insidious:

- *Leaving taxes and transfers out of distribution measurements creates a "problem" that cannot be solved, no matter how much taxing and transferring the government does.*

Imagine that the next President declares a national emergency and raises taxes and transfers to the point that the "Net income" line in first graph is perfectly flat, and consumption is exactly equal for everyone in the US. Yet, suppose that nobody reacts to incentives, as most on the left seem to believe, and the pre-tax income line is the same. Then measured income inequality, and wealth inequality capitalizing such income remains exactly the same!

How much redistribution should we do? If we accept this question, the answer is always "more!"

The only way taxes and transfers can reduce a measure of pre-tax inequality is by, in fact, so lowering the incentive to work or save that it kills the top end of the pre-tax income distribution. I.e. by destroying the economy.

- *Why do we include unfunded government debt and not unfunded pensions as "wealth?"*

Saez and Zucman interestingly do not include the present value of unfunded defined-benefit pensions as "wealth." Most of these are government employee pensions. It will indeed be interesting to see if these are not in the end bailed out by the general taxpayer. That seems like a reasonable assumption, though again it boosts inequality by removing a lot of middle class wealth.

Likewise, their answer to not capitalizing social security, medicare, medicaid, etc. is that the government has made these promises with no idea how to pay for them. Though again that removes a source of lower-income wealth that's a lot more stable than partnerships!

But the US federal government has just as little idea how it will pay back Treasury bonds. They too are unfunded? If we do not include unfunded promises as wealth, why not these too? Well, the cynic says, that would make inequality go down since rich people hold treasuries and lower income people hold social security and pension promises.

- *What harm does invested wealth and reinvested income do?*

If you are measuring and worrying about wealth inequality, not consumption inequality, you are *by definition* worried about invested and reinvested wealth. A typical Uber-wealthy person leaves his or her money invested either indirectly through stocks and bonds, or directly in private businesses and partnerships, and takes most of their capital "income" and reinvests it in those or new companies. That's why the distribution of "wealth" is so much more extreme than the distribution of consumption.

But just what harm are they doing? Really, the uber wealthy are providing the vast bulk of national saving and investment funds. If we start taxing wealth, and they respond by consuming it, giving it away, or giving it to political candidates, are we better off? Why is high income thrift a social problem?

There is no sensible economic question I can see for this. There is a political one. You read often from inequality critics the complaint that the wealthy "*control*" too much of the world's assets. I have not seen Saez and Zucman use this word, and rightly so because it shouts out to a sort of conspiracy nut-job view of the world.

- *Why is wealth inequality a "problem" requiring "policy-maker" attention?*

How can we care about a problem that is nearly impossible us to define or to measure, let alone person on the street to notice?

Homelessness is a problem, and you can see it just walking down the street in San Francisco. Unemployment, when it is large, is a problem, and you can see it readily. How is wealth inequality, so invisible that talented economists can't begin to coherently define it or measure it a problem? Why does that kid in Fresno care if venture capitalists fly in turboprops or jets?

As above, Saez and Zucman offer because
"the public cares about the distribution of economic resources,"

But the public cares about a lot of things, and not always for wise reasons. Good government ignores most things that large swaths of the public cares about. Envy used to be a deadly sin, not a guide for sober public policy.

Why is any "inequality" a "problem" requiring "policy-maker" attention? We should ask this question rather than just accept it. The minute you say inequality is a problem, you say that society is made better off by making someone a lot worse off and someone else a little worse off, so that we are more equal. No squirming, this is an inescapable conclusion, the only question left being how much.

I think many of us (me) worry about lack of opportunity, and the many barriers to advancement on the lower end of America's economic spectrum. I think society as a whole is better off if the bottom end rises. This worthy impulse is, I think, what many people mean when they say they worry about "inequality." But they recognize that the life of a poor kid from Fresno is completely untouched by whether a venture capitalist in Palo Alto upgrades from a turboprop to a private jet, and will be made no better off when confiscatory wealth taxation forces him or her to drive. If you're worried about opportunity, mobility, left-out and left-behind people and areas, good for you -- but "inequality" is a poor word to describe this worry. Use better words that do not empower disastrous economic policies.

Even if you're worried about inequality, then why should you worry only about inequality within a country, and not across countries? Libertarians and left-wingers used to agree that the country that you are assigned to at birth should not matter to your rights as a human being. Global inequality has gone down tremendously in the last decades.

- *The answer*

Well, why to all these questions? The only sensible answer is that none of these sensible alternatives would look bad, or seem to justify a wealth tax. We are once again searching for questions that justify a given answer.

So why do we want a wealth tax?

Thursday, January 9, 2020

Wealth and Taxes, Part IV

The Wealth Tax.

So, if arguing about the ill-defined and ill-measured distribution of wealth lies in service of the wealth tax, what is the question to which the wealth tax is an answer?

Revenue and Redistribution -- good and bad taxes

Preamble: Economists have no real professional expertise to object to redistribution, or argue for it. Swallow hard, you may not like it for political, moral or other reasons -- or you may be all for it for those reasons -- but admit economists have no special insights to the right amount of redistribution. Economics has one analysis to offer the world: *incentives*. (OK, and equilibrium.) If it were possible to take money from A and give it to B without creating any adverse incentives, we have no special standing to cheer or to object. Economics can tell us something about tax *rates*, but not much about *taxes.*

Thus the theory of optimal taxation is straightforward: how can the government raise a given tax revenue while generating the least perverse disincentives? The theory of optimal redistribution offers an additional wrinkle: how can the government give money away while generating the least perverse disincentives to recipients as well as payers?

Disincentives include evasion -- What legal or accounting moves will people make to avoid taxes? -- and changes in economic behavior -- To what extent will people move away, stop working, invest less, choose different careers, etc. in response to taxes? The former lose revenue and employ a lot of lawyers and accountants. The real damage to the economy comes from the latter.

This isn't the place to review this theory, but one thing is clear: *the wealth tax does not answer these questions.* It is a very inefficient way to raise money, for expenditure or for redistribution. It generates a swarm of avoidance, and it does a lot of economic damage per dollar raised. That's why most of Europe has abandoned substantial wealth taxes.

Let's list some disincentives.

On a most basic level, "don't tax rates of return" is a pretty solid conclusion of optimal tax theory. People react to a tax on rates of return by saving less and consuming more. They can do this a lot, resulting in a lot less investment capital.

Like any other famous result in economics, of course, this one attracts a beehive of theorists looking for ways to unseat it, but in my view it's pretty solid. It stems essentially from the principle tax inelastic things and don't tax elastic things.

A tax on rates of return taxes *when* you consume not your *level* of consumption overall. You have some money. Consume all today, or invest it and consume tomorrow? If there is a strong tax on rates of return, you consume more today and less tomorrow to avoid the tax. It's like taxing groceries at whole foods but not at Safeway. Well, go shop at Safeway. A non-distortionary tax wants to tax consumption at both dates, and not distort which date you choose to consume.

Put a third way, remember the wealth tax like a rate of return tax taxes money that has already been taxed. Earn money, pay taxes on it, invest it, and they pay taxes again. We should only tax it once. (This is the source of the great canard that the rich pay lower taxes than us. It's a canard because it counts only second-round tax on interest, not the first-round tax on the income that produced the investment.)

So a substantial wealth tax screams incentives: don't keep your wealth saved. Consume it, now! Take that private-jet round-the-world tour! Give it away to political candidates quick before the government takes it. (I mention the latter because so much of the wealth tax is designed to reduce their political influence. The i*ncentive* effect of a wealth tax is exactly the opposite.)

A substantial wealth tax screams, don't get wealthy in the first place. They'll just take it away from you.

A progressive wealth tax, like the progressive income tax, strongly discourages risk taking. This part is much less analyzed, and I think more would be a good idea. Most optimal tax models assume the future is known and all assets earn the same interest rate. The world is all about risk.

Suppose you have $20 million, and a choice between a Silicon Valley moonshot startup with a 1 in 4 chance of making $100 million, or the quiet safety of government bonds. The wealth tax says, invest in the government bonds. If you're choosing careers between entrepreneur and tax lawyer, become a tax lawyer.

Underlying this analysis are the two distinctive features of modern economics: Decisions are made *intertemporally,* subject to *risk,* and respond to *incentives.* I think most popular opinion (and too much economic opinion) treats decisions as static. Wealth is just there. Capital "income" is just a source of money, not an intertemporal price or a reward for risk taking.

The progressive wealth tax has another singular disincentive. You may answer, sure, make that investment, take that risk, you can accumulate up to $50 million before the tax hits. Your disincentive is not that big. (It is, actually -- the chance of finding another Google is a larger part of the average return of early stage venture capital investments. But that's not the point here.) But a wealth tax, which lowers the rate of return for any investment made by a billionaire by six percentage points, singles out billionaires not to make any more investments.

So who is most likely to find the *next* immensely valuable company? The progressive wealth tax says that the people who made the last successful investments are the *least* likely to make the next one. They should take that round the world tour, give it away, but heavens don't invest it. The rest of the world thinks the opposite -- people who have been very successful at starting companies in the past actually have some skill at this, and are precisely the ones we want to keep hard at work starting new companies.

Again, let me preview the political counterargument. If you think all current billionaires are just lucky, no more likely than the average DMV employee to find the next great invention; or if you think all great wealth in the US comes only from stealing from the government or impoverishing the little people, then you don't worry about putting billionaires out to pasture. I think you're living on another planet but we'll get there in the next part.

Of course, the other delicious result of optimal taxation theory is that a wealth tax can be the perfect tax. If the government confiscates wealth completely unexpectedly, and promises credibly never to do it again, the government gets all the revenue and none of the distortion. People have no choice but to go back to work and save and build that wealth up again. I've been criticizing taxes on *rates of return.* This "capital levy" is a true tax on wealth without taxing rates of return.

The catch: unexpectedly, completely, and once. Swoop in in the middle of the night and never come again. If people see it coming, they scramble to get out of the way. If it's a slow drip like 6% per year, ditto. And if having been impoverished once they wonder if maybe the government might do it again, then they refuse to work, save, and build up wealth that might be taken again. "Just this once" is what addicts say. People know that. "Capital levies" are therefore something governments can do only in extremely rare, visible, once-per-century crises, with some strong pre-commitment never to do it again. That's not the proposed wealth tax.

This fact gives you some insight into the deep tensions and arguments about government finance and much other policy. Any time wealth is there, there is a temptation to grab it, or transfer it, as it's too late for the disincentives of wealth creation to kick in, and those take a long time. The same temptation is there for rent control. Transfer the value of apartment buildings to today's tenants. The landlords can't move the apartments out of state after all. Exempt new buildings, in an effort to persuade landlords it won't happen again and they should build. Alas, they're too savvy for that -- they ask what stops you from passing a new rent control after we've built the buildings? The same temptation is there for drug prices. Force the drug companies to sell cheap. The drug is already developed. The damage that they won't develop new drugs takes a long time.

The trick is to tax the rich without taxing the incentive to *get* rich. The proposed wealth tax has a bit of capital levy in it -- it's mostly aimed at taking away wealth from people who have it as of November 6 2020. But it also taxes away the incentive to *get* rich. In standard economics that's a bad thing, since people get rich by inventing new and better products, starting new companies, or increasing efficiency and lowering prices. (In my next post we'll get to the political argument, which I think is the one its advocates really have in mind.)

Another good rule of thumb from the theory of taxation is that the economic damage of a tax is proportional to the square of the tax rate. Roughly, the damage equals the price distortion times the quantity distortion. The quantity is proportional to the price, so damage is price squr.

Now you might say, 2% or even 6%, that's not so bad. But one should compare the two or six percent to the rate of return, not the principal. Take a fixed-income investment, which in part I we found out gives an average interest income of 1% per year. We currently tax that interest income at federal, state, and local levels. If you pay a 50% income tax, then you get 0.5% return after taxes. The 50% income tax is the same as a 0.5% wealth tax. And a 6% wealth tax is effectively a 600% capital income tax rate.

Hank Adler and Madison Spach in the WSJ make another good point. To pay the wealth tax, you have to sell assets. If you sell assets, you have to pay federal and state capital gains tax all before you pay the wealth tax. This multiplies the tax.
Consider a hypothetical founder of a California company who has to pay a 6% tax on wealth in excess of $1 billion. The founder is exclusive owner of a company with a fair market value of $6 billion... The founder’s wealth in excess of $1 billion [i.e. $5 billion] would initially trigger a $300 million wealth tax. To raise the $300 million, he would need to sell $1.053 billion (17.6%) of the company to pay Ms. Warren’s 58.2% federal capital-gains tax, California’s 13.3% income tax, and the 6% wealth tax. (The $1.053 billion sale price minus $613 million in federal capital-gains taxes, minus $140 million of California income taxes leaves $300 million.)

Including the wealth tax on the first billion dollars, at the end of five years, sales of roughly $3.69 billion of the company would be required. The founder would have paid 61% of his net worth in taxes, losing most of the business.

As they point out, this is only the beginning. Most businesses also borrow money, and if you sell part of the business you have to repay debt before you do anything else. If, for example, the company is half financed with debt, then you have to sell $2 of assets, pay back $1 of debt, and then start paying taxes.

And remember most "wealth" is some accountant's idea of the present value of the income from a partnership or privately held business. Just who do you sell half of a small business to?

This too may be a feature not a bug. We're working up to my point, that the wealth tax is not at all a sensible answer to raising revenue for the government. Yet the people advocating it are smart and know this. So there must be a different question to which the wealth tax is the answer. As I'll document next time, for many people the actual purpose of the wealth tax is to eliminate billionaires without the ugliness of guillotines. If you want to get rid of billionaires and their businesses, the wealth tax is a dandy way to do it. If you want to durably raise revenue, for programs or for transfers, without destroying the economy, the wealth tax is a rotten way to do it.

An obvious reaction to a wealth tax will be for wealth people to make sure their wealth is in multiple small private companies with no easy to observe value. This is an important economic distortion as well as an evasion issue. Large public companies are more efficient than small private companies whose organization and finance are geared around tax avoidance. The disclosure and transparency that listing alone requires is beneficial. See WeWork. A lot of European companies stay small, private and inefficient for other reasons including labor laws.

Evasion

The wealth tax is extraordinarily open to evasion, which is a second reason most countries that had it abandoned it. There is nothing like the prospect of an annual 6% tax to focus the mind of a billionaire, his or her tax lawyers and accountants and lobbyists. (People with billions, and businesses that hire lots of voters, can get special provisions of the tax code too.)

Like all tax evasion it creeps up and gets worse and worse over time. It takes time to set up businesses and investments to avoid taxes like this. The parable of capital levy or rent control should ring.

We have a wealth tax, the estate tax. There is also nothing like 40% tax once a generation to focus the mind of billionaires and their tax lawyers, accountants and lobbyists. And it's a rotten mess. Wealthy families structure their businesses with the estate tax in mind from the day a grandchild is conceived.

How do you avoid wealth and estate taxes? First, take businesses private or invest in only private businesses that don't have clear market values. Real estate is especially good, because of the complex tax treatment and difficulty of valuing large investments. Then create complex share structure to spread ownership of the businesses around, staying ever one step ahead of the IRS' valuation rules. For example set up two classes of shares. Each share gets $1000 dividend per year. But class A shares have the right to buy class B shares for $2000. Thus, class B shares are only worth $2000. But the class B shares never get around to exercising that right. Outside investors or family members with less than $1 billion in wealth hold all IRS-valued "wealth" and inside investors get all the benefits. Add multiple interlocking LLCs and Cayman Islands special entities and nobody will figure it out. The New York Times' various exposes of President Trump's tax dealings from the 1990s are, I think, wonderful examples of just how wealthy dynastic families today get around income taxes, estate taxes and even sales taxes. This is just going to get worse.

Saez and Zucman's "How would a progressive wealth tax work?" anticipates some of these objections
"The greatest risk to enforcement comes from base erosion due to the exemption of specific assets, such as business assets and unlisted corporate equity. .. International experience shows that base erosion tends to occur when specific constituencies (such as business owners) lobby to become exempt."

In the good old USA, surely farmers, "constituencies such as business owners," "small" businesses (one person can own many), startups, businesses that employ many of a given congressperson's voters, businesses who now get all sorts of tax breaks for investing here and there, and so forth wouldn't lobby successfully for ways to avoid a wealth tax, especially by subterfuge -- special valuation rules for factories producing solar panels in rustbelt cities and so on... (that was a satirical paragraph in case you didn't get it.)
Wealthy individuals can try to hide assets abroad to evade income and wealth taxes. ...Wealth concealment is a serious enforcement concern. However, just like for legal avoidance, illegal evasion depends on policies and can be reduced through proper enforcement...

But why is enforcement "improper" now? On the big question, how do you value assets
Other countries such as Switzerland have successfully taxed equity in private businesses by using simple formulas based on the book value of business assets and multiples of profits. The IRS already collects data about the assets and profits of private businesses for business and corporate income tax purposes, so it would be straightforward to apply similar formulas in the United States.

I think this misses the point. These are taxes on small businesses. The uber-wealthy don't own businesses. They own complex claims on businesses, claims that are going to get insanely more complicated as soon as the wealth tax is passed. As above, good luck valuing 4 or 5

classes of shares, combined with debt that includes various options, funneled through various interlocking partenerships....
Valuing real estate..Local governments have a cadaster of real estate property for the administration of local property taxes. Such property taxes are based on assessed value. In most states, assessed values closely follow market value...

Two words: Donald Trump. As with businesses, wealthy people don't own real estate in their own names for goodness sake! They own shares of complex entities that eventually own real estate, all of it designed for tax avoidance. Like most of this article, they are taking the evidence that you and I pay property tax to infer that Trump enterprises will do so. That's silly.

They address this issue:
Some assets are held through intermediaries such as trusts, holding companies, partnerships, etc. To prevent avoidance, all the assets of intermediaries should be included in the tax base of their ultimate owner (granter or grantee, in the case of a trust) at their market values, without any valuation discount. Formulaic rules can be set to divide the ownership of jointly-held assets for wealth tax purposes.

Just how are we to untangle who actually owes what, especially when the structures are going to be designed to hide that fact? In a revealing footnote:
Estate tax revenue collected in 2017 from wealthy individuals who died in 2016 was only $20 billion. This is only about 0.13% of the $15 trillion net worth that the top 0.1% wealthiest families owned in 2016. This demonstrates quantitatively that the estate fails to take much of a bite on the wealthiest (in spite of a reasonably high 40% nominal tax rate above the $5 million exemption threshold, set to increase to $10 million in 2018). The main factor driving such low tax revenue is tax avoidance.

So people reacted to estate taxes predictably by forming complex asset structures, which destroyed the revenue from those taxes. Just how are you going to avoid exactly this result from the wealth tax? The paper does not say.

The the overall answer strikes me as a reiteration of a classic liberal conceit. Oh yes, it's all terrible now, but it's just been done badly. Put smart people like us in charge, and we'll somehow be immune to political pressure and we'll really put the screws on.

Even the New York Times concedes "Name a tax and there’s a way to reduce it, delay it or not pay it. Financial advisers say a wealth tax would be no different."

Optimal taxes

So, *if* the question is how do we raise revenue with minimal economic distortion, the wealth tax is an awful idea.

(New readers might wonder, what is the answer? The standard answer to this question is a consumption tax, which can be levied either directly or from income minus savings. This taxes consumption overall, and you can't squish out of it by consuming earlier. Get the rich at the Porsche dealer. Give them incentives to leave it invested. For income-based redistribution, either make a progressive consumption tax or use a high consumption tax to write people checks.)

Seeing this simple fact by experience, our tax code like those around the world has slowly reduced taxes on rates of return both directly - lower rates on dividends and capital gains than ordinary income -- and via a plethora of complex 401(k), 526(b), IRA, and other programs. (In the US, we always do things the most complex way possible, perhaps to raise taxes mostly from people who don't take the time and effort to avoid them, or perhaps to keep lawyers and lobbyists in business, but there you have it.)

This is not controversial. Every undergraduate knows this. As I prepared for this essay, I found that every article even in the New York Times and New Yorker admits all these points. Despite the above rather vain effort to rebut it, Saez and Zucman admit it isn't about raising revenue.

So why are we arguing?

Well, if the wealth tax is the answer, raising government revenue or transferring income with minimum economic distortion is not the question, and all of this is a complete waste of time.

What is the question then? It's not hard to find.

Friday, January 10, 2020

Wealth and Taxes, Part V

Wealth and Taxes Part V -- it's all about politics

So what *is* the question to which measuring wealth distributions and a wealth tax are the answer?

To briefly review, in Part I we met the fact that "wealth is measured as "capitalized income," Y/r. But only some kinds of income and with r choices that blew up measured wealth inequality. In Part II we learned that a big reason wealth inequality widened is that interest rates fell. If r falls, Y/r rises, but it's the same Y. In Part III we noted the distinction between consumption, income and wealth inequality. Wealth is beyond badly measured as a measure of lifestyle. The computations ignore taxes and transfers, wildly blowing up measured inequality and rendering it a "problem" that ipso facto cannot be solved. Why concern ourselves with pre-tax wealth inequality, especially given that most wealth is reinvested in businesses that produce things and employ people? In Part IV, we met the wealth tax. If the question is, how do we raise revenue for the government, either to spend or to transfer it, the wealth tax is a terrible idea, as it distorts the economy and leads to an evasion industry. A consumption tax is a much better idea.

So if wealth is not the answer to "how big is inequality," by any sensible measure, and if the wealth tax is not the answer to "what's the best way to raise money, or to redistribute income," if in fact wealth and wealth taxes are terrible answers to these questions, what is the question to which the wealth tax is the answer?

It's right there clear as day in Saez and Zucman's Jan 22 2019 New York Times Oped
Their [high marginal tax rates] root justification is not about collecting revenue...high tax rates for sky-high incomes do not aim at funding Medicare for All. They aim at preventing an oligarchic drift that, if left unaddressed, will continue undermining the social compact and risk killing democracy.

An extreme concentration of wealth means an extreme concentration of economic and political power… Democracy or plutocracy: That is, fundamentally, what top tax rates are about.

Well, now we have at least an honest question to which confiscatory taxation is the answer.

- *The point of the wealth tax is to destroy the supposed political power of billionaires by destroying their wealth.*

We could have saved a lot of time and effort if we had just started there and not wasted time on phony economic arguments!

Economic distortions are a feature not a bug. In optimal taxation theory we try to find taxes that raise revenue and don't kill the golden goose that lays eggs. The whole point here is to kill the golden goose.

- *The wealth tax is successful when it raises no revenue, when it destroys the wealth subject to tax.*

Even more clearly:
That few people [in the 1960s] faced the 90 percent top tax rates was not a bug; it was the feature that caused sky-high incomes to largely disappear.

Is your jaw dropping yet?

Saez and Zucman are not particularly consistent, arguing in many other places that the wealth tax will raise lots of revenue rather than just destroy wealth. They advise Senator Warren who has made big revenues a central part of her policy agenda. I find that sort of inconsistency very annoying, and telling of a political agenda which they're not willing to state honestly in many circles.

- *Will the real wealth tax please stand up? Is it supposed to raise a lot of revenue, or is it supposed to get rid of billionaires, after which it will raise no revenue? Make up your minds, please.*

(The quote is also a... misleading statement. 90 percent tax rates made *reported* incomes disappear and tax shelters explode.)

An amusing aside

The view that excessive income concentration corrodes the social contract has deep roots in America — a country founded, in part, in reaction against the highly unequal, aristocratic Europe of the 18th century.

I guess I can forgive two Frenchmen for being a little foggy on American history. Our revolution had a lot to do with paying British taxes, not guillotining the aristocracy. In modern language, Americans wanted opportunity, not redistribution. The Boston Tea Party was not a demand that Britain tax its aristocrats, either to send money instead of tea, or just to tax them out of existence because "inequality" was galling the Americans. The American Revolution was run by the wealthiest in this country, and was if anything about *keeping* property, including slaves.

Do billionaires really run the country?

We have left economics long ago, but does this idea make any sense? This is a mantra of the extreme left. John Cassidy, writing in the New Yorker to cheer these ideas

Meanwhile, the Citizens United ruling, the rise of super pacs, and the lurch to the right of the Republican Party and, of course, the Trump Presidency have demonstrated the growing political power of the billionaire class.

I'm scratching my head here. Just what billionaires are they worried about? Tom Steyer? Michael Bloomberg? George Soros? Bill Gates, devoting his billions to global charities? The Business Roundtable CEOs who endorsed "stakeholder capitalism" as fast as you can say "Warren just passed Biden in the polls?" The readers of the New Yorker? (Look at their ads and the NYT Style section. They don't run ads like that on Fox News!) Pete Buttigieg's wine-cave buddies? It strikes me that the billionaires in this country are by and large achingly progressive coastal elites. (see Ryan Bourne at Cato "Has Wealth Inequality Eroded U.S. Democracy" for numbers showing political preferences of the very rich.)

That billionaires bought Trump the election is simply untrue. Chris Edwards and Ryan Bourne: not one CEO in the Fortune 100 had donated to Trump’s election campaign by September 2016. His victory did not stem from influence by the wealthy but more from grassroots opposition to wealthy coastal elites.

The money was on Hilary Clinton, who spent nearly double what Trump did. I perceived Clinton, famous for Goldman-Sachs speeches, as just the kind of candidate one who dislike cronyism should worry about.

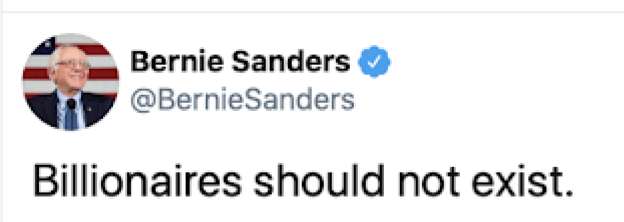
Well, dark conspiracy theories are hard to disprove. But at least now you know what worldview leads, logically (at last) from its premises to a wealth tax. You can decide if you buy these premises. It has, by admission, nothing to do with revenue, and little to do with economics.

The argument goes on that billionaires have too much "economic power." Progressives are great with language, and you usually see wealth "controlled" by the 1% not just "owned," or heaven forbid "earned" by the 1%. I will leave to your imaginations just what that means. If you have a billion dollars in treasury bills and the Vanguard index fund, just what "power" does that give you?

A wealth tax would also be a dandy way to bring billionaires in, with their tax lawyers, accountants, lobbyists, and favorite congresspeople for a once-a-year trip to the confessional, to discuss how the IRS will value various complex entities, along with their twitter accounts, charitable and campaign contributions, and just how their businesses are doing on advancing the green new deal and diversity and equity programs. As long as we are scratching our heads trying to find the question to which the wealth tax is the answer, this is a pretty good one.

Off with their heads!

The world-view is expressed even more clearly by Bernie Sanders:



or perhaps George Bernard Shaw
“The more I see of the moneyed classes, the more I understand the guillotine.”

The point really is decapitation. "Inequality" is (Saez and Zucman) such a "crisis" that we are better off just getting rid of billionaires, even if that means throwing all their wealth and the businesses that provide their income in the ocean. While it is often pointed out that any concern with inequality means are better off if a rich person loses $100 and a poor person loses $1, this is a pretty extreme version of that view.

Ill-gotten wealth

A second argument lies behind the wealth tax: it's all ill-gotten money, or luck. Zucman and Saez again
progressive income taxation... restrains all exorbitant incomes equally, whether they derive from exploiting monopoly power, new financial products, sheer luck or anything else…

Can you think of a few anything elses' that are missing here?

Robert Reich opines that there are only five ways to make a billion dollars
" exploit a monopoly;...get insider information unavailable to other investors,... buy off politicians,...extort big investors,...get the money from rich parents or relatives."

Just who made their iPhones, I'd like to know?

Edwards and Bourne document much more extensively a view more consistent with my reading of the facts,
Most of today’s wealthy are business people who built their fortunes by adding to economic growth, and some have created major innovations that benefit all of us. The share of the wealthy who inherited their fortunes has sharply declined in recent decades

In particular, the Piketty story of centuries old inherited wealth growing at r>g is a fable. The rich are not getting richer. All of today's rich are nouveau. At best, this generation's self-made internet gazilloinaires and hedge fund managers made more money than the last generation's Waltons and bond traders.

There is an element of truth, as in all fables. Edwards and Bourne go on,
...cronyism, which refers to insiders and businesses securing narrow tax, spending, and regulatory advantages. Cronyism is one cause of wealth inequality, and it has likely increased over time as the government has grown.

The really big billionaires -- google, Facebook, apple, etc. -- unquestionably built tremendous products, and pocketed a tiny fraction of the resulting benefit. But there is a lot of cronyism and exploiting government-granted monopolies in the US economy for sure. The epi-pen story is not isolated. Banking, courtesy of Dodd-Frank barriers to entry. Health care. We can grant that Vladimir Putin did not get wealthy from an innovative tech startup.

But to the extent that wealth is amassed by exploiting regulations, regulatory barriers to entry, special favors from the government, tax deals, is more government really the answer? How is it that the politically connected super wealthy can get massive breaks from corporate taxes (how

Reich thinks the Koch brothers made their money), but they won't get, well, massive breaks from the wealth tax? If too much government is the problem, inviting cronies to lobby for government to use its power on their behalf, just how is more government the answer? Bloody Marys don't work for a hangover.

Well, at least now we know what we're talking about. If you live on the Saez, Zucman, Reich planet, and you think destroying billionaires' wealth won't ruin your business too or deny you the benefits of economic growth, and you think that their politicians can operate a confiscatory tax regime without opening the same crony Pandora's box that they claim cause the problem in the first place, you like the wealth tax.

At least they should stop the pretense this has anything to do with revenue, economics, optimal taxation, expanding economic opportunity for the lower end of America, and so forth. As Warren advisers, they might want to inform her before the next debate, ah, this is not about raising revenue. And we should stop falling for this trap as well, and wasting our time on part I-IV arguments.

Bottom line

I want to end on two positive notes. I started all this with a discussion of Smith, Owen, and Zwick. As we saw in part I it cleans up some of the egregious thumbs on scale in Saez and Zucman, and taught me just how fraught the whole "capitalization" idea to measure wealth is. It's a good example of an industry of papers that quickly tore apart the Saez Zucman numbers.

But I fault Smith, Owen and Zwick, and most of their fellows, for meekly taking the *questions* at face value. Their paper "builds on the pioneering work of Saez and Zucman (2016)." They "follow Saez and Zucman (2016) in defining wealth." They calculate static revenues from a wealth tax. But we just found out that this was all a red herring as the point is to destroy wealth not tax it. They offer nothing to question the idea that if this definition of "wealth" has become more unequal, "policy" should do something about it. One can at least point to a literature, such as Edwards and Ryan, that do question the question, or Saez and Zucman's own opeds that suggest a very different set of questions.

Thus, I fault this paper, and its companions, for taking the questions at face value. You see the agenda. You're being suckered into a rope-a-dope. The right response is that this is the wrong question, an utterly silly question, and one can at least say that.

This series is really about conciliation. Unlike other economists, I don't want to presume we're all asking the same question and Saez and Zucman are dummies. I want to respect that they are smart, so if they are coming to a different answer, it must be because they have a different question. In today's post, we now have a set of world views that does at last have some logic, which one can debate. In that spirit, I close with a Saez quote which which I agree completely: "My sense is really that the public will favor more progressive taxation only if it is convinced that top income gains are detrimental to economic growth of the 99%, and that taxation can ameliorate this. In America, people do not have a strong view against inequality per se, as long as inequality is fair. And what does fair mean? As an economist, you would say fair means that individual income and wealth reflect the value of what people produce or otherwise contribute to the economic system. This is why distinguishing between the standard supply side scenario versus the rent-seeking scenario is so important."

Amen, brother Saez. And, if rent-seeking is the problem, explain to us how an enormous wealth tax will not attract the same rent-seekers who game the obscene income, corporate, and estate taxes today.

More

Chris Edwards and Ryan Bourne at Cato have a nice series on inequality issues here (study, also pdf) here (blog post). Ryan also takes on the final question that this series builds to, Has wealth inequality eroded democracy?

The Saez Summers Mankiw debate is informative. See also Summers and Natasha Sarin on the wealth tax. If you're following politics, this really is about the soul of the Democratic Party and its economic views, Summers vs. Saez-Zucman as it is about Biden vs. Warren, Sanders, AOC.

My Hoover colleague David Henderson wrote a nice blog post on the topic, including coverage of the debate.
"Emmanuel Saez... made his case for a tax on wealth and claimed that the wealthy have disproportionate influence on economic policy. In a segment that is beautiful to see (from about the 1:07:00 point to the 1:09:30 in this forum), Larry Summers challenged Saez to give an example where reducing wealthy people's wealth by 20 percent would produce better political, social, or cultural decisions. Summers to Saez: "You've been making this argument for years. Do you have one example?" Saez didn't. Summers went on to make the point that very wealthy people can have large influence by spending a trivial percentage of their wealth. Even heavy taxes on wealth would leave them quite wealthy."

"In his earlier presentation on the panel, Summers made another important point. He considered three activities that wealthy people engage in. Activity A is continuing to invest it productively. Activity B is consuming it—for example, by hiring a big jet and taking their friends to a nice resort. Activity C is donating it to causes and, if the causes are political, having even larger influence on political causes than they have now. Both B and C are ways to avoid a tax on wealth; A is not."

Interestingly, in the above oped, Saez did have examples, like the interesting claim that Russia became oligarchic and Japan did not (?) because Russia wasn't taxing enough. I would have been interested to hear Larry's response to that one.

From Nihai Krishan in the Washington Examiner
Larry Summers... has called Saez and Zucman's estimates for the revenues generated by the wealth tax "naively high." One possibility is that, instead of paying the tax, the über-wealthy would strategically give their money away to charities, reducing the tax base. "It seems important to account for the fact that the wealthy (and their tax planners) will inevitably be motivated to limit tax liability," Summers and another professor argued in an opinion piece in the Washington Post

Larry and the rest of us need to read the NYT oped and understand that low revenue is the point. Of course, Saez and Zucman could be more consistent about that.

The prevalence of non-profits as a tax-avoidance device, and their increasingly political nature, is a topic worth exploring. There is a reason every billionaire and sports star has a charity, that among other things employs his or her relatives and associates.

Gerald Auten and David Spilinter's analysis is an important recent piece in the data discussion. "Top income share estimates based only on individual tax returns, such as Piketty and Saez (2003), are biased by tax-base changes, major social changes, and missing income sources.... Our results suggest that top income shares are lower than other tax-based estimates, and since the early 1960s, increasing government transfers and tax progressivity resulted in little change in after-tax top income shares."

Chris Edwards passed along a number of good links. Like me, Chris is worried about cronyism, and has good opeds here and here acknowledging that "the democrats are partially right." He points to the logical fallacy though -- just because some people earned money this way does not mean that all rich people did. And, we can agree on the disease but disagree on the treatment. If a government running a complex tax system open to cronyism is the problem, it does not follow that more government running an even more complex tax system is the answer. Chris also has a nice analysis of the wealth and capital income taxes and Alan Reynolds on tax elasticities