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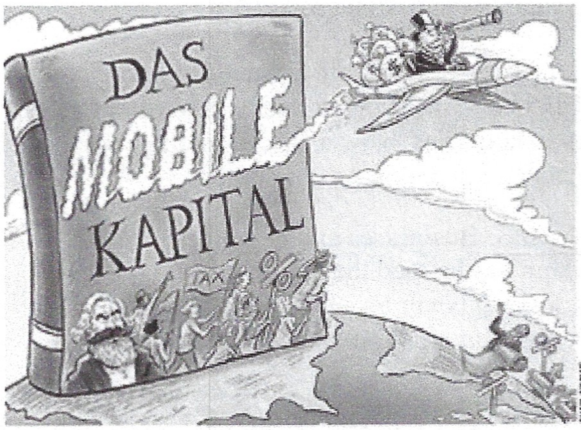
Levies on wealth gain in political popularity, but 'quicksilver capital' makes them certain to fail.



CHAD CROWE

It's Hard to Tax Things That Move

By Richard B. McKenzie

Progressives ranging from conventional liberals to hard-left socialists are trying to advance their egalitarian agendas with bigticket items funded largely by heavier taxes on the superrich.

Note

They miss an important economic reality. Their policy dreams will be checked by a force as unrelenting as it is unheralded: the growing mobility of capital, over which they will have shrinking influence. They risk becoming like New York Mayor Zohran Mamdani, whom Florida's Chamber of Commerce crowned "Florida's Economic Developer of the Year" for inducing New York City wealth to move south.

Note

In 1991 the University of Georgia economist Dwight Lee and I published a book on this economic force, which we dubbed "quicksilver capital" to capture the slipperiness of modern-day wealth. We documented the ways in which the mobility of global capital had sped up

over the past century as relocation and communication costs declined. The ease of moving capital had heightened pressure on governments to think more competitively in choosing their policies, most notably tax rates.

Margaret Thatcher and Ronald Reagan pressed for personal and corporate income-tax rate cuts as well as curbs on their governments' private-sector entanglements. Their successes put competitive pressure on other governments to follow suit.

Such moves by governments added to the market pressures on businesses to move their headquarters, plants and bank accounts to business-friendly jurisdictions. They also encouraged firms that stayed behind to get ready to move lest they have to shoulder the tax burden the movers left behind.

Mr. Lee and I called on James Buchanan, the 1986 Nobel laureate in economics, to write a blurb for our book. He did, but with a caveat: "Do we dare hope that McKenzie and Lee are right in their claim that modern information technology has reduced the monopoly power of governments everywhere? Their arguments are surely convincing, up to a point. But . . . I shall advise all classical liberals to keep their rhetorical powder dry."

We understood Buchanan's skepticism, which we shared, and which seems all the more pertinent with the recent ascendancy of progressives enthralled with wealth taxes and free-stuff-for-all proposals, presuming their agendas will be checked only by power politics.

We need not have worried. Income and corporate tax rates across the globe have continued their decline since the 1980s, though at a slower pace in recent decades. Travel and shipping costs have continued to drop, with communication costs falling precipitously. Trade barriers have continued to fall worldwide—until the advent of neoprotectionists such as Donald Trump, who might learn, with time, that he has undercut America's competitiveness.

Note

When we wrote our book, we understood that a lot of capital was reincarnating into digital forms that could be sent around the world in a few keystrokes at close to light speed with far lower production, storage and transmission costs.

We were unaware of transformative technologies soon to be released— email and internet—that would dramatically accelerate trade and the use of a growing array of digitized capital goods from contracts and architectural plans to books, films and games. These technologies have made it easier to work from home in different states or even countries. Now artificial intelligence offers the prospect of workforces of digitized "agents" that can roam the world unconstrained by national politics.

The global spread of capital now carries a threat to which progressives remain oblivious: Businesses and employees increasingly can move to avoid taxes and regulations. California Gov. Gavin Newsom has learned the lesson of capital's growing mobility. He opposes a state wealth tax on the ballot in California, and is seeking cover by supporting a federal wealth tax, a likely nonstarter in Congress and at the White House as it would clearly throttle economic growth. Mr. Mamdani will soon have to concede the point or fade rapidly in political relevance.

Note

Governments' basic competitive problem is that they are landlocked and are competitors for capital that is footloose on a global scale. Their dilemma? Higher taxation of wealth easily transmutes into lower total revenue and economic decline. No wonder so many governments have yielded to the threat and now bid for capital projects with tax concessions and other benefits to attract and hold on to capital.

Progressives and socialists might score political points in coming elections, but their gains will be checked not so much by the right as by states and nations that see development opportunities in other governments' hostile treatment of capital and wealth.

Mr. McKenzie is a retired economics professor at the University of California, Irvine, and a co-author of "Quicksilver Capital: How the Rapid Movement of Wealth Has Changed the World."

