

Europeans cherish a fantasy that higher U.S. taxes can make France great again.



POLITICAL ECONOMICS

Wealth Taxes' French Connection

Californians have a special opportunity when they vote in this year's mid term. They can Make France Great Again. That's what's at stake in the ballot measure to approve a wealth tax.

Proposition 40 has a good claim to be the most significant item on the ballot anywhere in America this cycle. That's only partly due to the fiscal math and the economics of the proposed 5% tax on those with assets above \$1 billion. On the merits, the policy is a dog.

As dangerous is the attitude Proposition 40 embodies. Its premise is that any and all private wealth constitutes an illegitimate diversion of resources away from the state. Despite the initial application to fortunes only above \$1 billion, one discerns in the academic literature behind Proposition 40 no limiting principle.

This is foreign to America's political tradition, in which property rights are a foundation of our liberty. The tax is entirely redistributive and punitive, and in this regard its philosophical radicalness is underappreciated. Probably because the danger it poses to the economy is so distracting.

That's where the French come in. It's notable that the key academic advocates of Proposition 40, and wealth taxes in general, are French. Emmanuel Saez, an economist who teaches at University of California, Berkeley, is credited as one of the authors of Proposition 40. His frequent collaborator Gabriel Zucman is a vocal proponent. Between them they have done more than any other economists to provide an intellectual veneer to the case for introducing wealth taxes in America.

Messrs. Saez and Zucman derive their conclusions from Thomas Piketty, also French, whose 2014 book, "Capital in the Twenty-First Century," revived academic and popular interest in inequality. Mr. Piketty's political influence has proved more durable than his book's methodological credibility, and debate still rages about whether any of these people can accurately measure "wealth" at all.

This isn't a knock on the French, who can be lovely people when they aren't rioting. But the French origins of Proposition 40 are significant. For one, these economists come from a political-economy tradition very different from America's.

More to the point, they come from a country that is broke. France has just wrapped up another week of rioting over its government's lack of money. This time students are demanding more cash for schools. At various other times it was government employees, retirees and farmers. With a nearly 120% ratio of government debt to gross domestic product and fiscal deficits above 5% of GDP each year, there's no money to give them.

This has encouraged the spread of the convenient fantasy that France—and, by extension, Europe's other bankrupt states—would have enough money to spend if only the wealthy could be forced to pay their fair share of taxes. Most of the global tax debate of the past decade traces back to this myth.

The problem is that France already tried a wealth tax of its own. It was a flop. The levy consistently generated less revenue than predicted, and President Emmanuel Macron scrapped it in 2018. French economists managed to avoid learning anything about incentives, prosperity or fiscal sustainability from this experience. But they do think they know how to make a wealth tax work better.

Wealth-tax supporters argue the French attempt failed because it exempted large pools of wealth, especially related to business ownership. Crucially, wealthy Frenchmen also were able to shift their tax residence elsewhere in Europe to avoid it.

The "solution" in both instances is universality, both geographically and in terms of the definition of the tax base. The principle is simple: Wealth taxes must be applied, and they must be applied everywhere. *Note*

+ here it is or there you go!
Et voilà. This explains key features of Proposition 40, such as its application to ownership stakes in businesses and its attempts to thwart Californians who might move elsewhere. And also why it's so important to this crew that wealth taxation take root in America in the first place.

Similar thinking explains an earlier failed attempt to persuade America to adopt a European style of corporate taxation (Google "OECD BEPS" if you must). There too the goal was to universalize European levels of taxation. Mr. Zucman was a leading proponent.

Not
Many Europeans seem to believe that America's tax system is the greatest threat to their own national finances. This misdiagnoses the root of their troubles. Still, it's true that as long as the U.S. is available as a relatively friendly home for investors and companies, the reality of capital and human mobility will impose a practical limit on France's ability to tax itself. Changing this would require a wrenching breach in America's political economy surrounding property rights and taxation—a process Proposition 40 would begin.

Fixing France's public finances is a worthy goal. But Californians are under no obligation to help.

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