Sanders Wealth Tax Would Hamstring Recovery Efforts

Abraham Kaplan’s law of the instrument is as follows: “Give a small boy a hammer, and he will find that everything he encounters needs pounding.” Unfortunately, some members of Congress have decided to emulate this truism by responding to a once-in-a-century pandemic and the unique challenges it presents with the exact same legislative cudgels they advocated for prior to the onset of the novel coronavirus.

But the present crisis the nation faces merits a more thoughtful response. Americans simply cannot afford to have their legislative leaders act like the small boy in Kaplan’s proverb, treating the coronavirus-induced recession like a problem to be solved with the same instruments they prescribed years before.

**Background: Are the Wealthy Profiting Off Your Pandemic Pain?**¹

Millions of Americans have struggled with the aftereffects of state-imposed lockdowns, from failing businesses to record spikes in unemployment. It’s understandable, therefore, that many were angered by reports that the wealthiest Americans had made billions at the same time that everyday Americans were struggling to get by. Lost in the shuffle, though, was the fact that these reports contained an ounce of truth compared to a pound of distortion.

¹ Please note that this section title observes Betteridge’s law of headlines.
The original report which sparked such a media frenzy looked at the net worths of American billionaires from March 18 to May 19, finding that they grew by a total of $434 billion over that time period.

The pound of distortion, however, comes in at the time horizon selected by Americans for Tax Fairness (ATF) and the Institute on Policy Studies (IPS), the authors of the original study. Market concerns about the pandemic and its potential impact on the economy began long before March 18 — in fact, by that time, the S&P 500 had already dropped by nearly 30 percent from its February 19 peak.

Steve Goldstein, a reporter at MarketWatch, re-ran the same analysis ATF and IPS performed, but using the far more logical February 19 start date. Goldstein found that far from making money off the pandemic, America’s billionaires had lost $232 billion.

ATF’s reported numbers don’t even pass the smell test. It defies reason that the billionaires at the heads of America’s largest corporations could have somehow profited off of being forced to shut down or significantly curtail operations for months, particularly considering the depressed demand arising from consumers losing their jobs or staying indoors to observe social distancing guidelines.

### Wealth Taxes and Coronavirus

None of that context must have made it to the desks of Senators Sanders (I-VT), Markey (D-MA), and Gillibrand (D-NY). On August 6, the trio introduced the “Make Billionaires Pay Act,” legislation to impose a one-time 60 percent wealth tax on the wealth American billionaires made between the period of March 18 and August 5.

ATF and IPS’s updated numbers through July 16 estimate that America’s billionaires have made over $700 billion off the pandemic. Given the performance of the market (only in the last few days has the S&P approached its pre-COVID peak), it’s more likely that they are just beginning to break even. The Sanders legislation would set the taxable wealth gained between March 18 and August 5 at $731 billion.

A more accurate title may be the “Tax The American Recovery to a Screeching Halt Act.” Wealth taxes, such as those advocated for in the Democratic primary process by Senators Warren and Sanders, threaten economic ruin in the best of circumstances. When the wealth being taxed is nothing less than the recovery from a devastating market crash, the economic consequences must also be paired with questions of fairness.

Were the tax to be designed for anything more than a cynical and underhanded means of using the pandemic to implement a wealth tax, it would look at wealth gained between January 1 and August 5. Of course, that time horizon would see a miniscule amount of taxable wealth.

This being said, Senators Sanders, Markey and Gillibrand are likely aware of these facts, and see the opportunity to tax a substantial portion of billionaires’ wealth as a good unto itself. Therefore, setting aside red herring “windfall profits” arguments, it’s worth evaluating the proposal on its own merits.

### The Problems With Taxing Non-Windfall Profits As Windfall Profits

In past papers on wealth taxes, NTUF addressed how one of the core problems with the structure of wealth taxes is how they target normal returns over supernormal returns. Generally speaking, in tax policy, it is better to target investment returns above and beyond what an investor expects to receive as a result of his investment, as this is less likely to disincentivize future investment.
The “Make Billionaires Pay Act” disguises itself as a tax on supernormal, or windfall, returns, but it actually targets an almost completely arbitrary portion of the value of certain assets. There is no economic reason whatsoever why the recovered value of investments after a recession should face taxes.

And there are numerous reasons why taxing this recovered value is a poor idea. A tried-and-true economic adage is that when you tax something, you get less of it, so the recovery from a recession should be one of the last candidates to face a massive tax hit. Simply put, recession-hit businesses may simply close up operations rather than pay back 60 percent of their recovery in taxes, or at the very least pursue recovery less energetically.

Even though the tax is one-time, it would set a precedent that assets could face taxes on the basis of an arbitrary time horizon, with no allowances for net operating losses. This would encourage investors to focus overly on assets less susceptible to the fluctuations of the business cycle, artificially propping these types of businesses up over more volatile, but still financially sound, assets.

Perhaps even more destructive would be its impact on business investment. By its nature, an investment is a short-term loss that is meant to yield greater returns over the long term. But should entrepreneurs or business owners fear that their ventures may face taxes on the basis of the difference in an asset’s value between when the investment is made and when it is realized, the incentive to invest would decrease substantially.

All of these concerns may appear to be abstract, but the economic consequences would be very real. Businesses closing down cost Americans their jobs, and deferred investment opportunities would stall employee wage growth. That would be a heavy price for Americans to pay just so three senators could make a point.

Conclusion

The “Make Billionaires Pay” Act has next to no chance of passage, but it represents another wealth tax salvo coming from the far left. These proposals are often justified using misleading claims about how wealth is held and generated in the country. Yet the distortions being used to justify a 60 percent tax on a post-pandemic recovery take the cake.

Taxpayers are not well-served when their elected officials mislead them, particularly in a time of pain and crisis. At the very least, they deserve better than legislation based off of easily-disproved claims of billionaire pandemic profiteering.

About the Author

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