Senator Elizabeth Warren's Wealth Tax

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Summary: We estimate the budgetary and economic effects of Senator Elizabeth Warren's proposal for a wealth tax equal to 2 percent of net worth above $50 million and 6 percent of net worth above $1 billion, which is enacted on January 1st, 2021.

Contents

Table 1. Conventional and Dynamic Revenue Estimates, Fiscal Years 2021-2030

Billions of Dollars, Change from Current-Law Baseline

Estimate type	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Budget window
Conventional	204	260	254	249	245	259	279	299	324	351	2,724
Without avoidance/evasion	*294*	*396*	*417*	*439*	*464*	*491*	*520*	*552*	*586*	*622*	*4,781*
Extreme avoidance/evasion	*136*	*162*	*146*	*132*	*120*	*124*	*132*	*142*	*153*	*165*	*1,412*
Dynamic	195	242	228	216	206	214	226	240	255	274	2,294

Note: Conventional estimate refers to PWBM's projection of revenue allowing for some microeconomic avoidance based on empirical estimates discussed in the Technical Appendix.[1] The dynamic revenue estimate allows for macroeconomic feedback effects under the assumption that additional revenue is used to reduce the deficit. Similar values for dynamic estimates are projected during this period using the different spending assumptions

[1] https://budgetmodel.wharton.upenn.edu/issues/2019/12/12/senator-elizabeth-warrens-wealth-tax-projected-budgetary-and-economic-effects#appendix

Table 2. Economic Effects of a Wealth Tax: Revenues Used to Reduce Deficits

Percent Change from Baseline

Year	GDP	Capital stock	Average hourly wage	Hours worked	Total factor productivity
2030	-0.7%	-1.6%	-0.5%	0.1%	0.0%
2040	-0.9%	-2.2%	-0.7%	0.2%	0.0%
2050	-0.9%	-2.5%	-0.8%	0.2%	0.0%

Note: Consistent with empirical evidence,[1] the projections above assume that the U.S. economy is 40 percent open and 60 percent closed. Specifically, 40 percent of new government debt is purchased by foreigners.

[1] https://budgetmodel.wharton.upenn.edu/issues/2016/9/13/setting-behavioral-responses-in-pwbms-dynamic-simulations

Table 3. Economic Effects of a Wealth Tax: Revenues Spent with No Productivity Boost

Percent Change from Baseline

Year	GDP	Capital stock	Average hourly wage	Hours worked	Total factor productivity
2030	-0.6%	-1.8%	-0.6%	0.4%	0.0%
2040	-1.1%	-3.4%	-1.2%	0.5%	0.0%
2050	-2.1%	-6.5%	-2.3%	0.4%	0.0%

Note: Consistent with empirical evidence,[1] the projections above assume that the U.S. economy is 40 percent open and 60 percent closed. Specifically, 40 percent of new government debt is purchased by foreigners.

[1] https://budgetmodel.wharton.upenn.edu/issues/2016/9/13/setting-behavioral-responses-in-pwbms-dynamic-simulations

Table 4. Economic Effects of a Wealth Tax: Revenues Spent with Productivity Boost

Percent Change from Baseline

Year	GDP	Capital stock	Average hourly wage	Hours worked	Total factor productivity
2030	-0.5%	-1.9%	-0.5%	0.3%	0.1%
2040	-0.6%	-3.2%	-0.7%	0.4%	0.5%
2050	-1.0%	-5.6%	-1.1%	0.5%	0.8%

Note: Consistent with empirical evidence,[1] the projections above assume that the U.S. economy is 40 percent open and 60 percent closed. Specifically, 40 percent of new government debt is purchased by foreigners. [UPDATED December 12, 2019 at 4:55 PM EST to correct a clerical error.]

[1] https://budgetmodel.wharton.upenn.edu/issues/2016/9/13/setting-behavioral-responses-in-pwbms-dynamic-simulations

Table 5. Economic Effects of a Wealth Tax: Alternative Assumptions and Scenarios

Percent Change from Baseline

Implementation	Use of funds	Year	GDP	Capital stock	Average hourly wage	Hours worked	Total factor productivity
With avoidance	Deficit reduction	2030	-0.7%	-1.6%	-0.5%	0.1%	0.0%
With avoidance	Deficit reduction	2040	-0.9%	-2.2%	-0.7%	0.2%	0.0%
With avoidance	Deficit reduction	2050	-0.9%	-2.5%	-0.8%	0.2%	0.0%
With avoidance	Spend revenue, no TFP boost	2030	-0.6%	-1.8%	-0.6%	0.4%	0.0%
With avoidance	Spend revenue, no TFP boost	2040	-1.1%	-3.4%	-1.2%	0.5%	0.0%
With avoidance	Spend revenue, no TFP boost	2050	-2.1%	-6.5%	-2.3%	0.4%	0.0%
With avoidance	Spend revenue, medium TFP boost	2030	-0.5%	-1.9%	-0.5%	0.3%	0.1%
With avoidance	Spend revenue, medium TFP boost	2040	-0.6%	-3.2%	-0.7%	0.4%	0.5%
With avoidance	Spend revenue, medium TFP boost	2050	-1.0%	-5.6%	-1.1%	0.5%	0.8%
With avoidance	Spend revenue, high TFP boost	2030	-0.4%	-1.9%	-0.4%	0.3%	0.3%
With avoidance	Spend revenue, high TFP boost	2040	-0.1%	-3.0%	-0.2%	0.4%	0.9%
With avoidance	Spend revenue, high TFP boost	2050	0.2%	-4.7%	0.0%	0.5%	1.7%
Without avoidance	Deficit reduction	2030	-1.0%	-2.2%	-0.7%	0.1%	0.0%
Without avoidance	Deficit reduction	2040	-1.2%	-3.1%	-1.0%	0.2%	0.0%
Without avoidance	Deficit reduction	2050	-1.4%	-3.6%	-1.1%	0.2%	0.0%
Without avoidance	Spend revenue, no TFP boost	2030	-0.9%	-2.9%	-1.0%	0.5%	0.0%
Without avoidance	Spend revenue, no TFP boost	2040	-1.8%	-5.5%	-2.0%	0.7%	0.0%
Without avoidance	Spend revenue, no TFP boost	2050	-3.5%	-10.3%	-3.7%	0.5%	0.0%
Without avoidance	Spend revenue, medium TFP boost	2030	-0.8%	-3.0%	-0.8%	0.5%	0.2%
Without avoidance	Spend revenue, medium TFP boost	2040	-0.9%	-5.2%	-1.1%	0.6%	0.8%
Without avoidance	Spend revenue, medium TFP boost	2050	-1.6%	-9.0%	-1.8%	0.6%	1.3%
Without avoidance	Spend revenue, high TFP boost	2030	-0.7%	-3.0%	-0.6%	0.4%	0.4%
Without avoidance	Spend revenue, high TFP boost	2040	-0.1%	-4.8%	-0.2%	0.6%	1.5%
Without avoidance	Spend revenue, high TFP boost	2050	0.0%	-7.5%	0.0%	0.7%	2.6%

Note: For Implementation, the "with avoidance" scenario corresponds to the tax avoidance method and assumptions used in Table 1 to produce our conventional budget estimate. (See the Technical Appendix[1] for additional details.) "Without avoidance" corresponds to the assumption with no tax avoidance, also presented in Table 1. For Use of Funds, "deficit reduction" corresponds to the deficit reduction scenario presented in the text. The assumption "no TFP boost" corresponds to our productivity-neutral level of spending scenario presented earlier in the text. The assumption "medium TFP boost" corresponds to our productivity-boosting spending scenario presented earlier in the text, with an annual return equal to about 12 cents per dollar of new public investment. The "high TFP boost" scenario approximates the 2040 break-even GDP scenario presented above, with an annual return of 15 cents per dollar of new public investment. Both TFP scenarios assume spending rates following the Congressional Budget Office (2016).[2] Consistent with empirical evidence,[3] the projections above assume that the U.S. economy is 40 percent open and 60 percent closed. Specifically, 40 percent of new government debt is purchased by foreigners. [UPDATED December 12, 2019 at 4:55 PM EST to correct a clerical error.]

[1] https://budgetmodel.wharton.upenn.edu/issues/2019/12/12/senator-elizabeth-warrens-wealth-tax-projected-budgetary-and-economic-effects#appendix

[2] Congressional Budget Office (2016). The Macroeconomic and Budgetary Effects of Federal Investment. Retrieved from https://www.cbo.gov/publication/51628.

[3] https://budgetmodel.wharton.upenn.edu/issues/2016/9/13/setting-behavioral-responses-in-pwbms-dynamic-simulations