



Discussion of
“Should the rich pay for fiscal adjustment?
Income and capital tax options”
Thomas Piketty

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■ The rise of European wealth-income ratios

□ New data set of national balance sheets

- 8 countries, covering a long period. Great achievement!

- More details:

- Which components are included (e.g. pension wealth: present value of the future pensions to which workers and retirees are entitled)?

■ A European wealth tax

□ Comprehensive: non financial assets + financial assets – liabilities

□ EU level (mobility, tax avoidance, ...)

□ A potential great revenue source



Additional food for thought

- Political issues
- Redistributive (and economic) effects
- Leaving aside implementation issues
 - Is a EU wealth tax «wide» enough?
 - Avoidance mechanisms particularly inequitable, i.e. possible for financial wealth but not housing
 - Liquidity constraints, i.e. how would low income high housing wealth people pay?

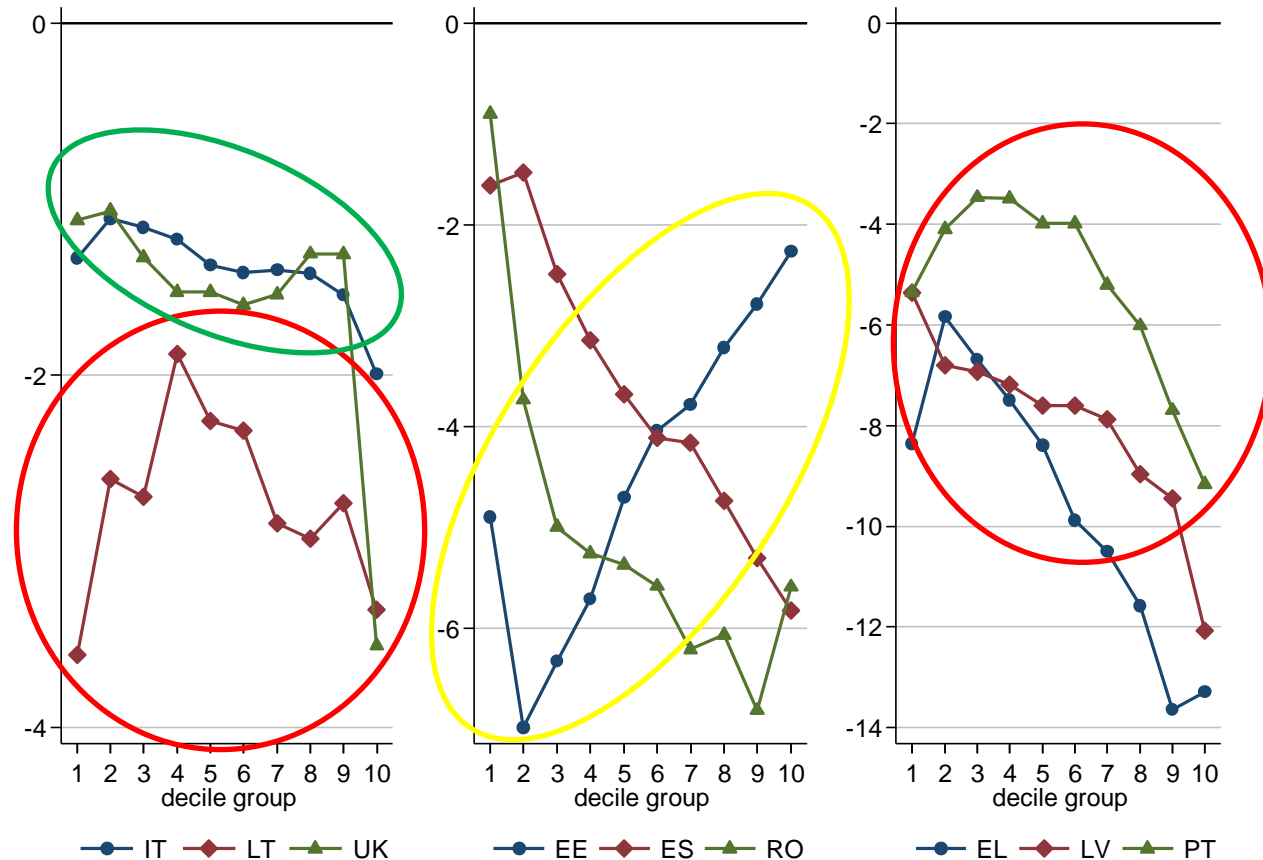


Political issues

- Wealth tax abolished in many countries in the 1990s
- In a revenue neutral context it is more efficient than other taxes but it can be controversial as a revenue generating tax
 - Do governments want to have the rich paying for fiscal adjustment?

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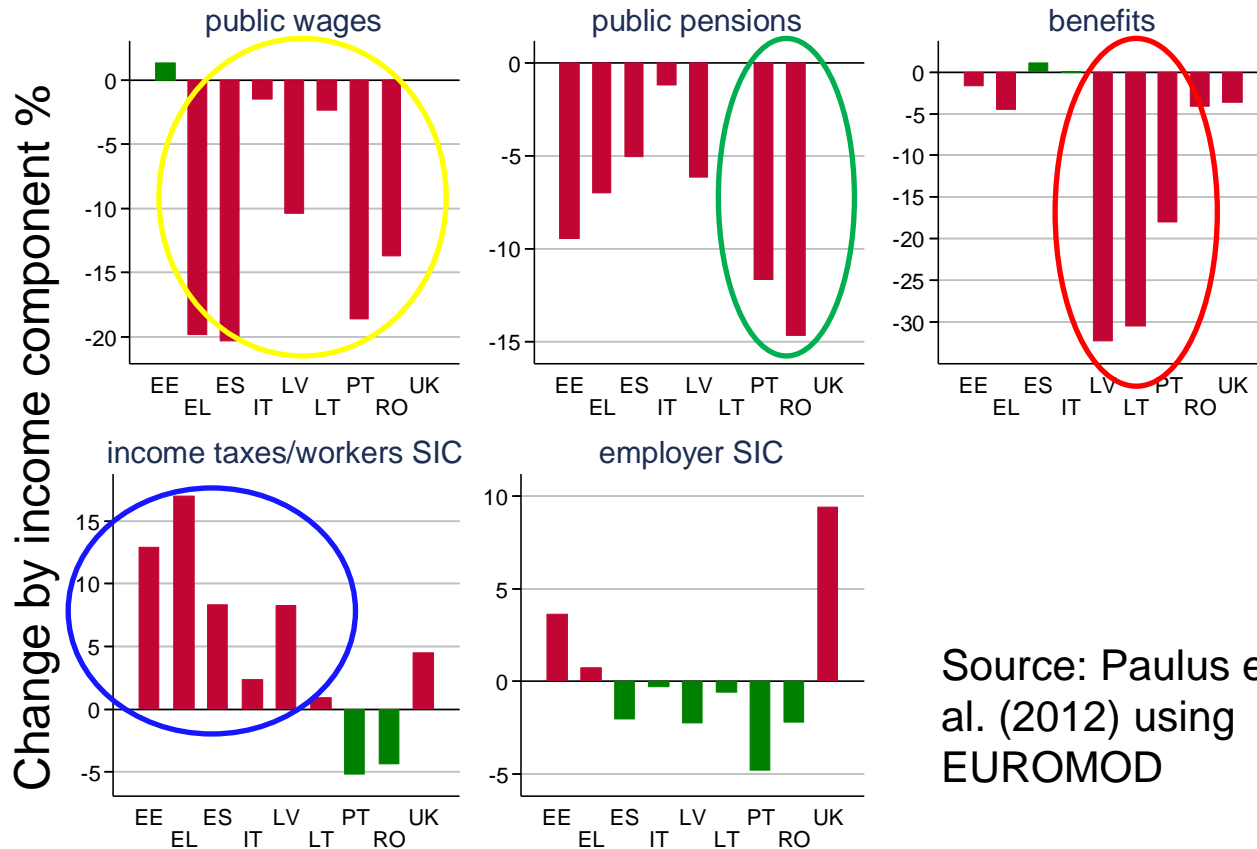
2009-2012 Fiscal austerity measures



Source: Paulus et al. (2012) using EUROMOD

Do governments want to have the rich paying for fiscal adjustment?

2009-2012 Fiscal Austerity Measures



Source: Paulus et al. (2012) using EUROMOD

Note: results for taxes and benefits also include effects due to the changes in public wages.



Do governments want to have the rich paying for fiscal adjustment?

2009-2012 Fiscal Austerity measures in Italy

- Relatively flat incidence across the income distribution – most of the potentially progressive measures do not bite:
 - (SILC under-represents top incomes to some extent but...)
 - **Solidarity contribution:** above 300.000 euro per year: 0.07% of tax payers (*based on fiscal data*). And it is deductible....
 - **Public pension cuts:** above 90.000 euro per year: 0.97% of pensioners
 - **Public sector wage cuts:** above 90.000 euro per year: 1.49% of employees (public and private sectors)
- VAT has a regressive effect



Redistributive effects

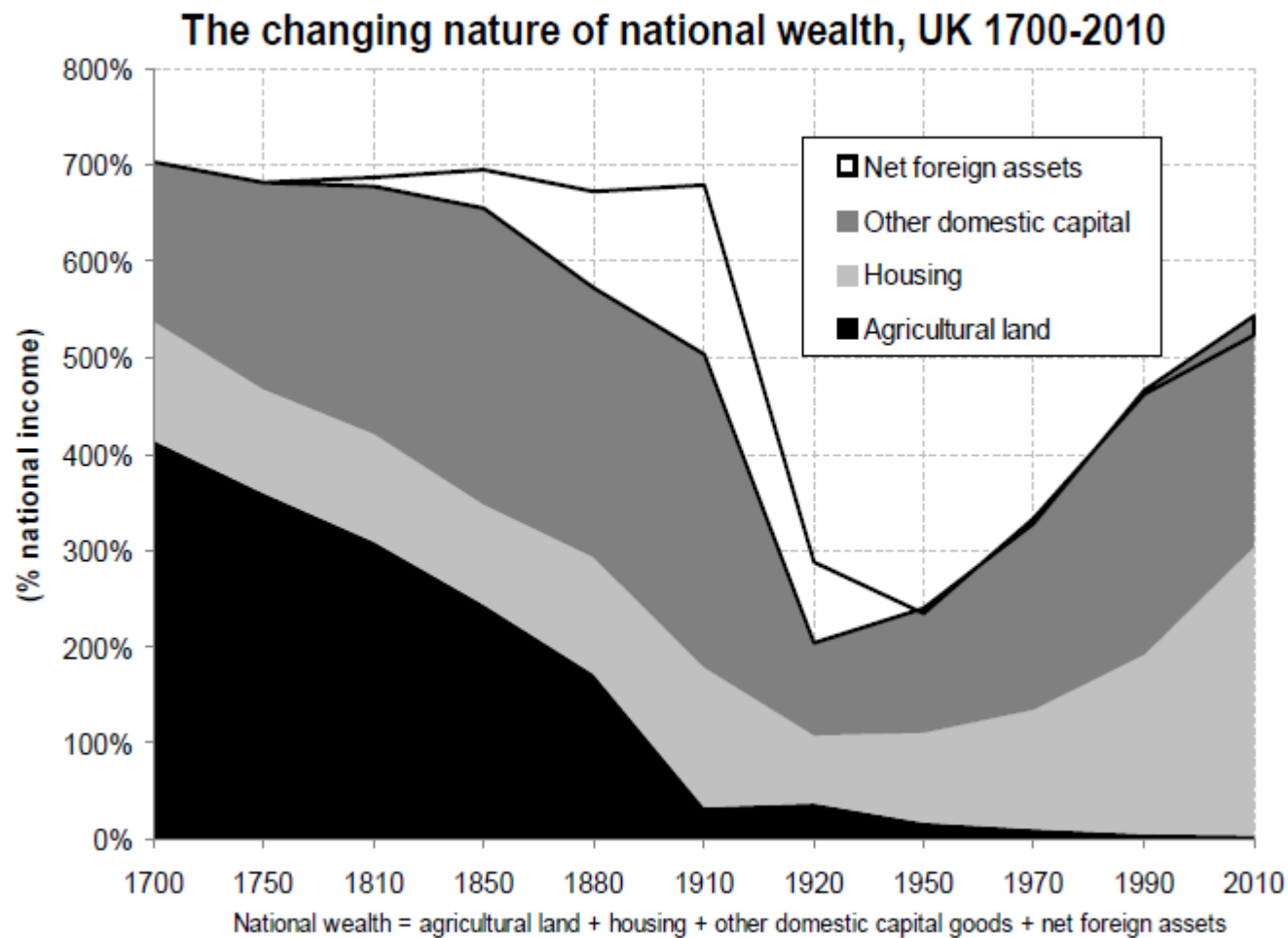
- Wealth is distributed unevenly in all industrialized countries and taxing wealth is a way to reduce this inequality
- Top 10% wealth holders have 60% of aggregate wealth
 - Do we have enough info on distribution of wealth?
 - Are national micro statistics on household wealth comparable?
 - What about wealth composition across countries (role of housing assets, ...) ?
 - Higher personal\asset allowances would concentrate the tax burden on the wealthy part of the population



Beyond GDP

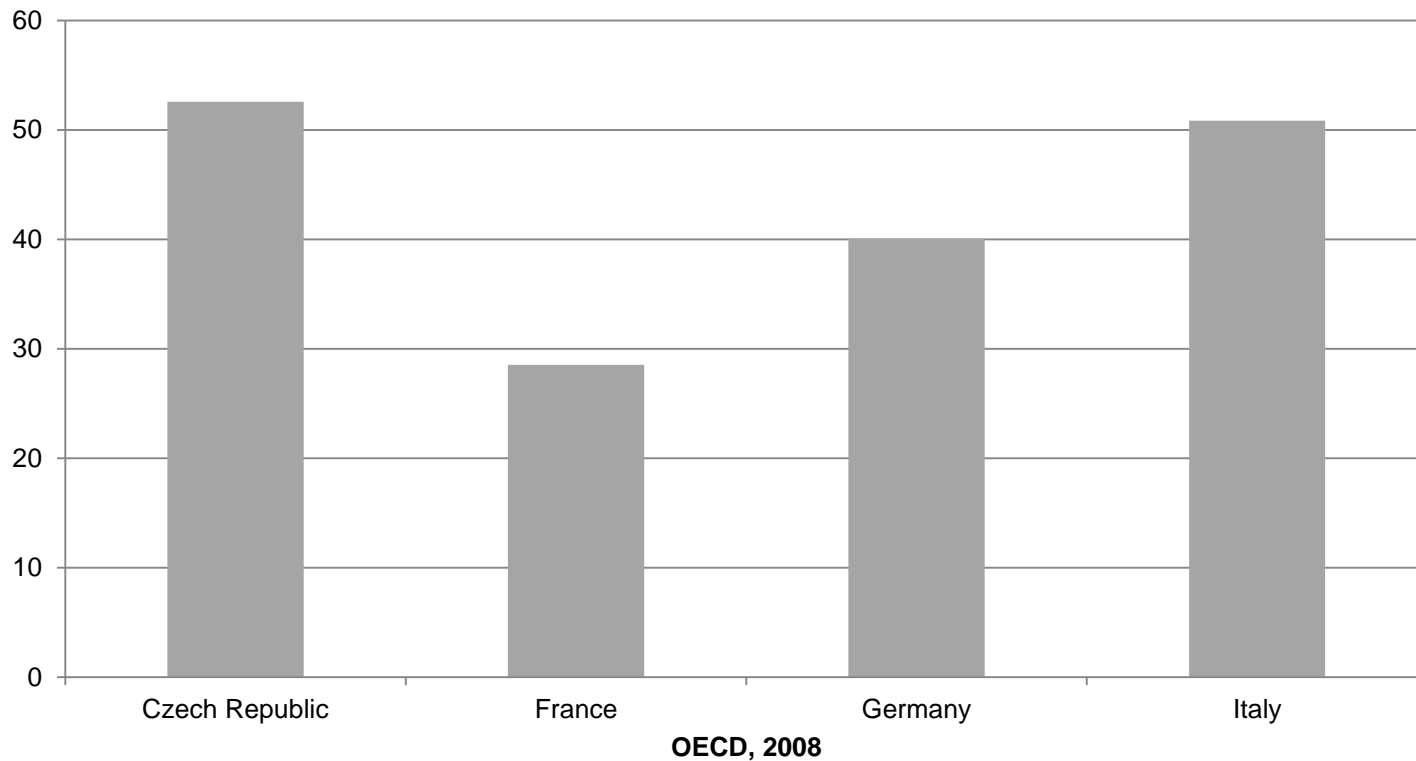
- Stiglitz, Fen, Fitoussi report (2009)
 - **Recommendation 3:** *Consider income and consumption jointly with wealth (availability of Balance Sheets)*
 - **Recommendation 4:** *Give more prominence to the distribution of income, consumption and wealth (availability of household micro data)*

Role of housing assets

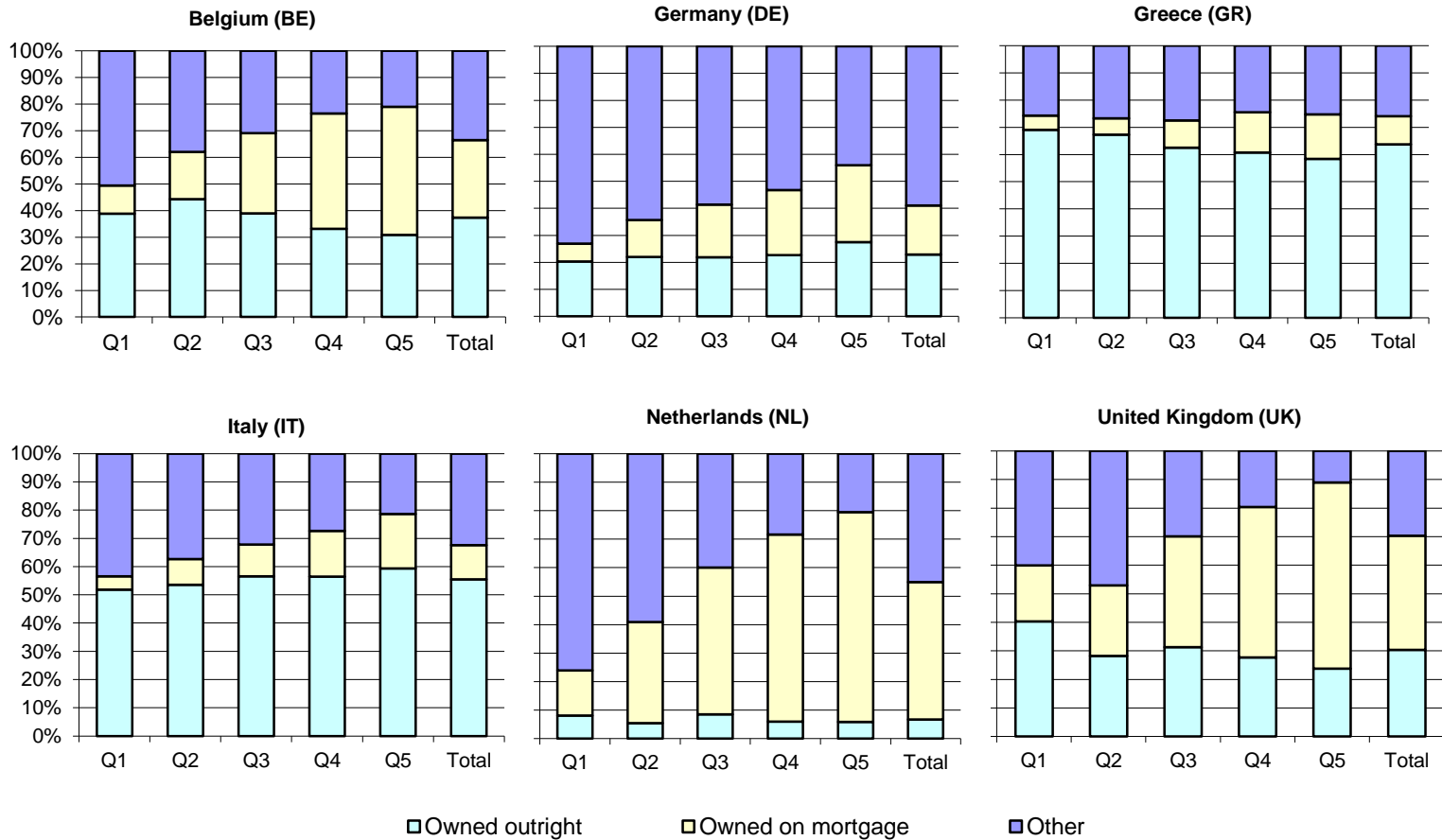


Role of housing assets

Dwellings as % of household total assets

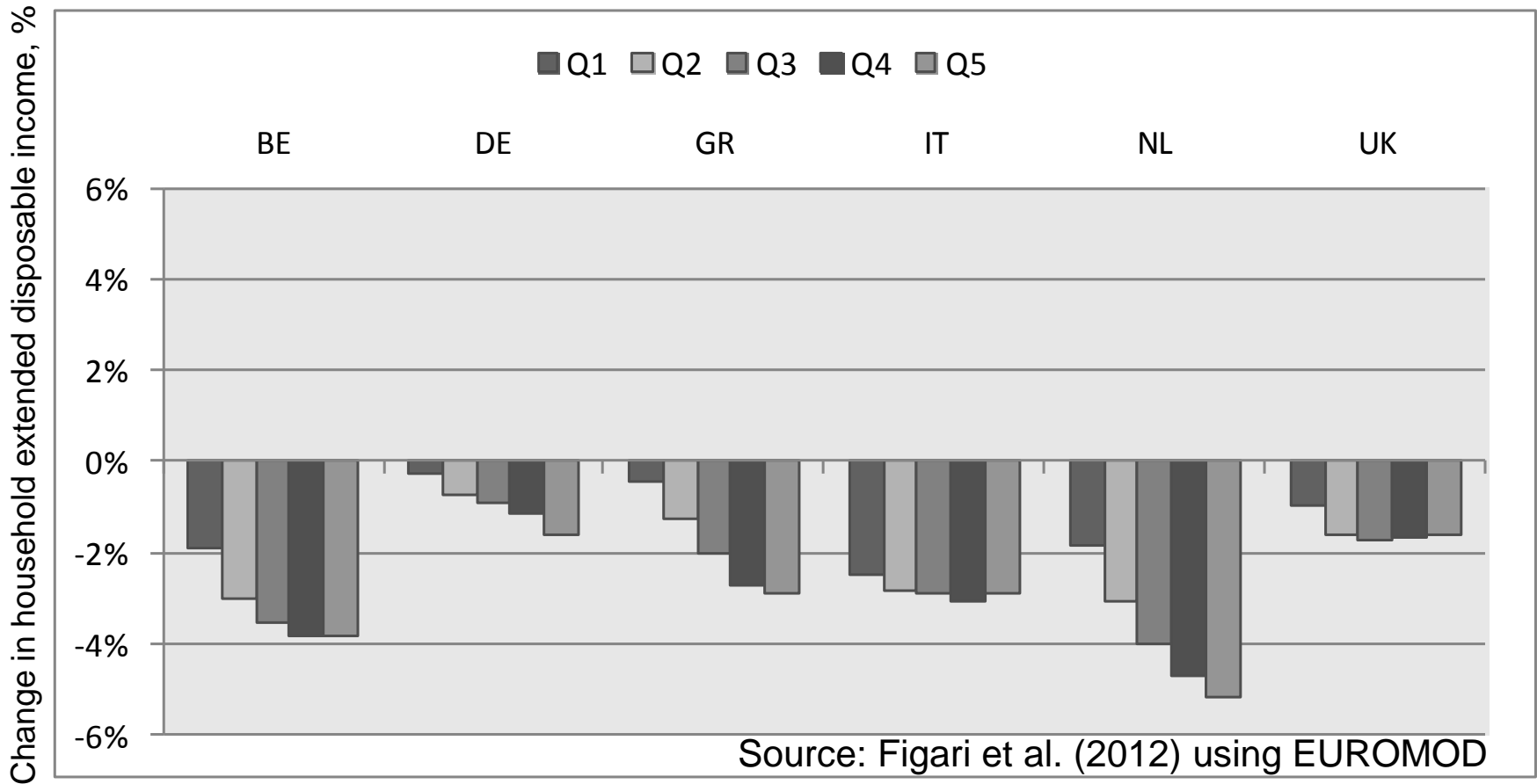


Housing tenure



Source: Figari et al. (2012) using EUROMOD

Taxation of Imputed Rent






Economic effects

- Pros and cons

- A wealth tax lowers the net return on financial investments relative to investments in human capital
- If revenue redistributed to all individuals, a wealth tax (as an inheritance tax) could enhance the intergenerational social mobility and promote equality of opportunities across individuals

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- Paulus A., S. Avram, F. Figari, C. Leventi, H. Levy, J. Navicke, M. Matsaganis, E. Militaru, O. Rastrigina and. H Sutherland (2012), The distributional effects of fiscal consolidation in EU countries, Social Situation Observatory Research Note, forthcoming
 - Figari F., A. Paulus, H. Sutherland, P. Tsakloglou, G. Verbist and F. Zantomio (2012), Taxing the benefit of homeownership. Distributional effects of including imputer rent in taxable income”, EUROMOD Working Paper 4/12.