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

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ECFIN Workshop
The role of tax policy in times of fiscal consolidation
Brussels – 18 October 2012
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

  - 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

The changing nature of national wealth, UK 1700-2010

National wealth = agricultural land + housing + other domestic capital goods + net foreign assets
Role of housing assets

Dwellings as % of household total assets

Czech Republic, France, Germany, Italy

OECD, 2008
Housing tenure

Source: Figari et al. (2012) using EUROMOD
## Taxation of Imputed Rent

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Change in household extended disposable income, %

Source: Figari et al. (2012) using EUROMOD
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.