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DOES CANADA NEED A WEALTH TAX?

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Executive Summary

In its recent Speech from the Throne, the federal government said it was considering a tax on what it termed "extreme wealth inequality" in this country. This would be a mistake for several reasons. To start, wealth inequality is not increasing in Canada. Statistics Canada data show that wealth held by the lowest three income quintiles rose more than that held by the highest two quintiles, raising their share of wealth from 27.1% in 2010 to 29.5% in 2019. The gain in wealth for those with lower incomes reflects increases for both financial and non-financial assets, and began before Canada's housing market took off in 2015. Canada's middle class holds more financial assets than the middle class in the United States and, therefore, is less vulnerable to a downturn in the housing market. The myth that inequality reached extreme levels is an example of a narrative from the United States distorting a policy debate in Canada.

The increase in wealth was led by younger generations. The wealth of baby boomers rose by 64.6% between 2010 and 2019, while for Generation X it increased 133.9% and Millennials posted a 465.5% gain. Nevertheless, over half of wealth in Canada was held by older people, which is why a tax on wealth can easily morph into a tax on age.

In practice, wealth taxes have proven costly to administer and generate little revenue. As a result, most European nations that experimented with a wealth tax abandoned it in recent years. There are several reasons that wealth taxes proved ineffective in raising tax revenues or reducing inequality. Wealth is difficult to define, measure, and tax. The largest sources of wealth are housing and pension assets, which are almost always exempt from a wealth tax because they are widely held. As a result, wealth taxes are applied to a narrow range of assets the value of which can be difficult to establish.

On top of the narrow base to which a wealth tax applies, the rate of taxation must be kept low. This is partly because a wealth tax is equivalent to a punitive tax on capital income, with the additional complication that a wealth tax must be paid even when income is low. As a result, there is a substantial incentive to shift assets to jurisdictions without a wealth tax, something that in practice happens regularly because of the ease with which many taxable assets can be shifted across borders.

Besides being ineffective, wealth taxes also dampen savings and investment, which slow long-term growth. This is the wrong message to broadcast as Canada struggles to recover from a decade of sub-par growth and its worst recession since the 1930s.

Some of the recent increase in wealth in Canada and other nations reflects a decade of easy monetary policies. These policies were designed in part to boost asset prices and household wealth. Without passing judgement on the long-term efficacy of these policies, one can see that it would be contradictory for our governments to encourage higher wealth with monetary policies and then tax it with fiscal policies. If our society judges the increase in wealth to be non-productive or unfair, it should reverse the very monetary policies that favour rising wealth.

It is worth clarifying that most wealth is held by individuals and not corporations. At the end of 2019, household net worth in Canada stood at $11,876 billion compared with $622 billion for corporations and $268 billion for government. A wealth tax would not shift the tax burden to firms, most of which do not hold enough liquid assets, as painfully revealed during the severe recession in 2020.

1 Introduction

Calls for a wealth tax are rising in North America, usually in conjunction with demands for imposing increased income taxes on high earners. The idea spread with the perceived favouritism of stimulus to the financial sector during the Great Financial Crisis, epitomized by the Occupy Wall Street movement, which spilled over into Canada despite the absence of a government bail out for our financial institutions.[1] Several leading candidates for the Democratic Presidential nomination— mostly from the more radical wing of the party represented by Bernie Sanders and Elizabeth Warren—endorsed a wealth tax. In Canada, the New Democratic Party (NDP) has proposed following this path with a tax on individual wealth above $20 million (Smart, 2019), on top of higher income taxes. The temptation to levy a wealth tax will increase as governments look for new revenue sources to rein in record budget deficits after the coronavirus pandemic triggered a deep recession in 2020.

The growing receptivity to a wealth tax in politics is reinforced by an intellectual environment increasingly hostile to wealth and inequality. This was most evident in the success of Thomas Piketty's *Capital in the Twenty-First Century*.[2] The basic message of Piketty's work "is that we live in an era when wealth in the rich countries does very well, while production and incomes grow slowly" (Piketty, 2016: 4). His preferred academic solution is a graduated tax on wealth that hits 90% for the wealthiest members of society.

The attraction of a wealth tax in Canada is based on several assumptions, all of which are questionable or unfounded. One is that inequality is widening. Inequality may be increasing in some advanced market economies, but this was not true for income or wealth in Canada over the past decade.[3] Even outside Canada it is not clear if wealth inequality is rising: Credit Suisse's *Global Wealth Report* shows the share of wealth among the top decile was almost unchanged between 2000 and 2017, although more skewed to the top group within this decile (Shorrocks, Davies, and Lluberas, 2017: 13).

Another assumption is that wealth is easy to define, measure, and tax. Widely publicized annual, and more recently daily, lists of wealthy individuals feed this perception. In practice, wealth is quite difficult to define and measure: the wide range of estimates of Donald Trump's net worth discussed later in this paper reflects these complexities. As a result, different ways of estimating wealth provide conflicting results, leading one expert to conclude: "Overall, the existing evidence on what happened to the concentration of wealth in the last few decades is not conclusive" (Kopczuk, 2014: 20).

There is a presumption that a wealth tax would generate substantial net revenues. This is contradicted by Europe's experience that wealth taxes were costly to administer

1. For an overview of the ideas behind the movement, see *The Occupy Handbook* (Byrne, 2012).
2. Piketty, 2014; for a critique of Piketty's thesis, see Cross, 2014.
3. The data for wealth are provided in this paper; for incomes, see Cross, 2020.

and produced little revenue. The lack of revenue reflects that most household assets were exempted, the tax rate had to be kept low to prevent capital from leaving the country, and households adjusted their behaviour to minimize their tax bill. As a result, most European nations abandoned wealth taxes years ago. Proponents discount the impact of taxing wealth on economic growth. However, extensive research finds that a wealth tax discourages the savings and investments that foster higher long-term growth, especially when wealth taxes are layered on top of taxes on capital income.

Finally, changes in wealth are assumed to be driven only by economic factors. In reality, demographics are playing an increasing role in wealth dynamics. Older people inevitably have more wealth because of the longer time they have had to accumulate assets. Canada's aging population boosts the number of wealthy people more as a result of the growing number of seniors than because individual wealth is rising. In these circumstances, taxing the wealthy easily can become taxing the elderly, punishing them for building the home equity and savings for retirement long encouraged by the tax system. As well, many of the determinants of inequality are cultural, and therefore largely impervious to taxation.

Hastily overhauling our tax system based on dubious assumptions and narratives about inequality imported from other countries would be harmful to Canada's economic growth, raise few revenues, and dampen our already weak entrepreneurial spirit. A tax system is not just a tax code enforced by government inspectors, but embodies a society's basic attitudes to economic activity, particularly the roles of business and government. Ultimately, "[i]t's a belief system [of] shared convictions" (Saez and Zucman, 2019: 47). The authors of these words believed in collective action and government intervention, but a tax system can also be designed to encourage entrepreneurship, individual initiative, savings, and investment, all of which are in short supply today in Canada. A wealth tax would send a negative message that penalizes savings and encourages consumption, even frivolous spending, over investment. It says our society prizes redistribution ahead of growth and equity over efficiency, the wrong signals to send at a time when a decade of sub-par growth was capped by the worst economic downturn since the Great Depression of the 1930s.

One fundamental problem is that the goal of taxing wealth is unclear. The design, the level, and even the necessity of a wealth tax depends on what its implementation hopes to achieve. Is the goal maximizing government revenue? Reducing inequality? Punishing the rich because a few acquired wealth in a dubious manner? Increasing societal well-being or utility? Preventing wealth from corrupting democracy? The answer to any of these questions partly depends on how one perceives wealth.

Overview of the study

The rest of this study begins by discussing different views of wealth in economics, and reviews recent trends for wealth in Canada and how its distribution differs from that in the United States. It then explores the issues and difficulties raised by levying a wealth tax. Since Canada has little experience with a wealth tax, most of the discussion draws

on the experience of other countries or on economic theory. The factors that limit the net revenues generated by a wealth tax are discussed, including their high costs of administration and collection and the ability of people and capital to cross borders to avoid a wealth tax. This is followed by a review of issues related to measuring wealth. The macro consequences of how a wealth tax affects savings, investments, and growth are presented in the penultimate section, followed by a summary of some of the social issues surrounding a wealth tax.

2 Different views of wealth in economics

Economists disagree on how to view wealth, which is important since the perception of wealth helps determine how it should be treated and taxed. The so-called Marshallian view is that wealth is the stock of past accumulated savings. This leads to a negative characterization of wealth that is as much political as economic. It supports a view of an economy dominated by rentiers living off accumulated capital, as epitomized by Ricardo's parasitic landowners, and creates the alarming prospect of "government captured by the rich" (Naidu, 2017: 100). In this view, wealth is passive and often unearned, and therefore taxing it is justified and has few negative effects on the economy.

Piketty claims that the size and inequality of capital income are increasing and that the growing importance of accumulated wealth means "the past devours the future" (Piketty, 2014: 571). He argues that rising income and wealth inequality should be corrected with higher taxes on both, including up to a 90% tax on wealth (*Economist*, 2019). However, one of the unresolved paradoxes is that rising income inequality in many countries was accompanied by "little evidence of dramatic increase in wealth concentration" (Kopczuk, 2015: 47).

The more neo-classical view of wealth looks to the future and not to the past. From this perspective, "[w]ealth is most accurately conceptualized as a claim on future resources. It results from purchases of durable property rights over assets, such as machines, houses, patents, or oilfields, that are either productive (in which case people bid to use them) or extractive (in which case people pay to keep legal process from being used against them)" (Naidu, 2017: 100). In this view, wealth is more a claim on future output, where profit is the "proper and socially useful reward for thrift" that allows capital to be accumulated (Naidu, 2017: 100). The epitome of wealth in this view are the billionaires spawned by high-tech companies, not the owners of large estates. Since wealth is deployed in investments that benefit the economy, society should not tax wealth. Instead, it should claim some of the capital income that wealth generates to minimize the negative effect on investment and growth. In cases where wealth comes from the market dominance of a few firms, taxes address the symptom and not the cause of rising inequality and therefore "[t]he appropriate solution is more competition and more capitalism, not less" (Tepper and Hearn, 2019: 228).

A wealth tax is a tax on "movable and immovable property, net of debt" (OECD, 2018: 16). Some forms of wealth taxes have existed for decades. Every country in the OECD applies a property tax, which is a type of wealth tax although the mortgage liability is not subtracted from the value of the home.[4] People do not think of a property tax

4. The same drawback of not subtracting liabilities applies to estate taxes. While Canada does not have an estate tax, some assets such as RRSPs and real estate are deemed to be disposed of when you die and are added to your income, which is taxable.

as a wealth tax because it is mostly used to "finance local and provincial public services rather than to achieve redistribution" (Boadway and Pestieau, 2019: 5). However, Piketty acknowledges that a property tax "is tantamount to a wealth tax on the propertied middle class" (Piketty, 2014: 529).

Recent proposals for a wealth tax involve extending the tax from property to other financial and non-financial assets, usually with exemptions for principal residences and pensions savings and even then only for assets beyond a certain threshold. Other forms of wealth probably would be exempt from most proposals for a wealth tax in Canada, including Tax Free Savings Accounts and consumer durables (such as motor vehicles). However, the inevitable consequence of all these exemptions and high thresholds is a wealth tax generates little revenue.

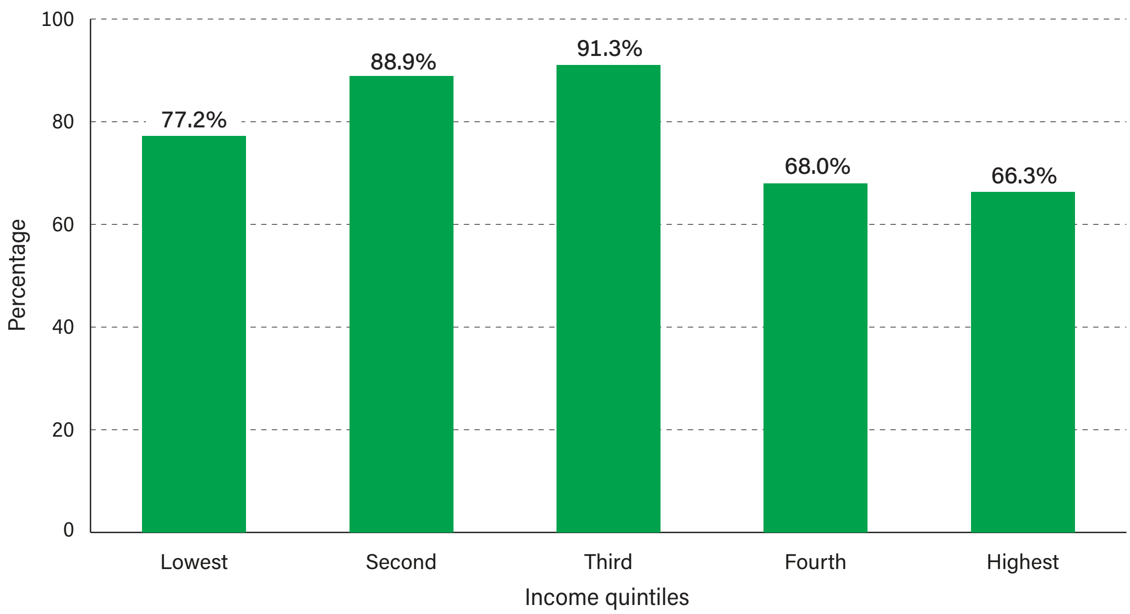
It is worth clarifying that a wealth tax inevitably would fall mostly on households and not corporations because most wealth in our society is held by individuals. At the end of 2019, household net worth stood at $11,876 billion compared with $622 billion for corporations and $268 billion for governments (Statistics Canada, 2020a). It may surprise some to learn that corporations hold very little wealth, because they pay out most of their income to wage earners and stock owners (Piketty, 2016: 23). This is one reason that, during an economic downturn, firms are so fragile, especially financial firms, which are often highly-leveraged.[5] Far from the false narrative about corporations sitting on large amounts of "dead money", the reality is that most firms do not hold enough liquid assets, as was painfully confirmed during the free-fall of economic activity that was the consequence of the coronavirus pandemic in 2020.

5. Piketty correctly observed that "no taxes are paid by businesses: ultimately, every euro of tax is always paid by households. In this fallen world, there is unfortunately nobody except physical, flesh-and-blood people who can pay taxes" (Piketty, 2016: 57).

3 Canada's wealth more equally distributed

Wealth in Canada has grown more for people in the three lowest income quintiles than the top two since 2010.[6] The percentage gains improve steadily from 77.2% for the lowest quintile to 88.8% for the second lowest and a high of 91.2% for the middle quintile (figure 1). Growth slowed to 68.0% for the fourth quintile and 66.3% for the highest quintile, the smallest gain among the five quintiles. The higher growth of wealth for the lower three income quintiles was driven by their higher net equity in housing than for the highest two quintiles.

Figure 1: Growth (%) of net household wealth, by income quintile, 2010–2019

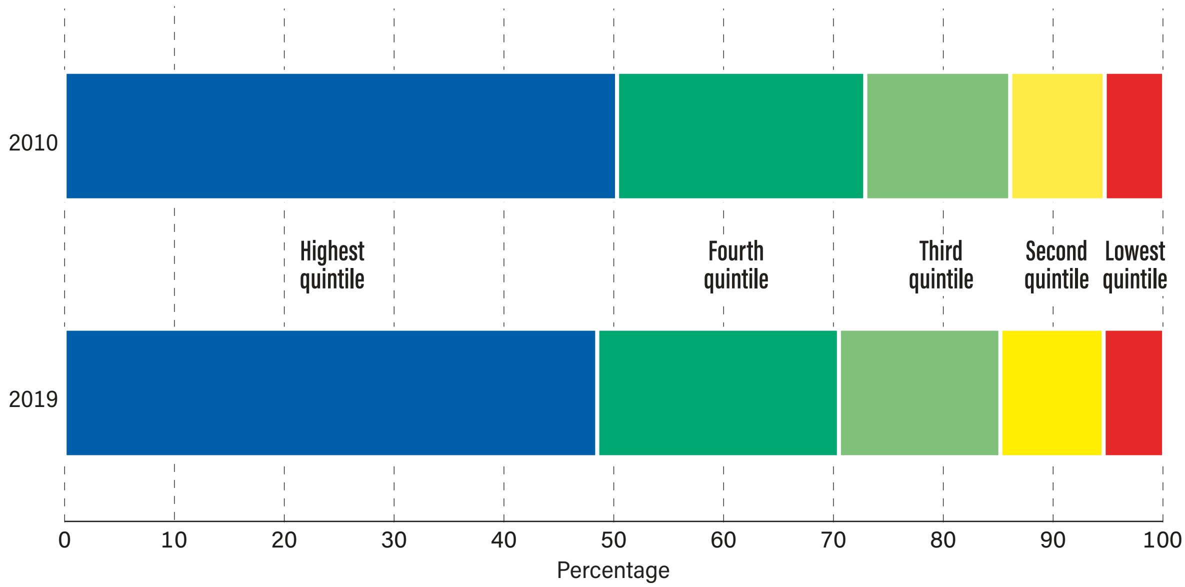


Notes: [1] Income quintiles are assigned based on the equalized household disposable income. This takes into account differences in household size and composition. The Oxford-modified equivalence scale is used; it assigns a value of 1 to the first adult, 0.5 to each additional person aged 14 and over, and 0.3 for all children under 14. [2] The coefficients of variation from Statistics Canada's *Survey of Financial Security* for 2012 and 2016, which serve as indicators of the accuracy of these estimates for net worth and its components, are available in the appendix to *Distributions of Household Economic Accounts*, estimates of asset, liability, and net worth distributions, 2010 to 2019, technical methodology and quality report for the March 2020 release.
Source: Statistics Canada, 2020b: table 36-10-0585-01.

As a result, the combined share of wealth held by the lower three income quintiles rose from 27.1% in 2010 to 29.5% in 2019 (figure 2). The mirror image is the share of wealth held by the upper two income quintiles, which declined from 50.3% to 48.5%

6. The start date for a consistent time series on wealth from Statistics Canada, itself one measure of the lasting importance of the Great Financial Crisis on the debate about wealth inequality. For a discussion of the data on wealth, see Statistics Canada, 2017.

Figure 2: Share (%) of household wealth by income quintile, 2010 and 2019



Notes: [1] Income quintiles are assigned based on the equalized household disposable income. This takes into account differences in household size and composition. The Oxford-modified equivalence scale is used; it assigns a value of 1 to the first adult, 0.5 to each additional person aged 14 and over, and 0.3 for all children under 14. [2] The coefficients of variation from Statistics Canada's *Survey of Financial Security* for 2012 and 2016, which serve as indicators of the accuracy of these estimates for net worth and its components, are available in the appendix to *Distributions of Household Economic Accounts*, estimates of asset, liability, and net worth distributions, 2010 to 2019, technical methodology and quality report for the March 2020 release.
Source: Statistics Canada, 2020b: table 36-10-0585-01.

for the top quintile and from 22.6% to 22.0% for the second highest (or fourth) quintile. The reduction of wealth inequality in Canada means one of the major justifications for a wealth tax does not apply here. The decline of inequality in Canada after 2010 appears to continue a longer-term trend, as the Gini coefficient for wealth inequality fell 17% between 1970 and 2012 (although this finding was based on a different data source for wealth) (Sarlo, 2017: i).

The oil-price shock in 2015 and the ensuing housing boom were not the major drivers of wealth trends over the past decade. The highest quintile posted the slowest growth in wealth both between 2010 and 2014 and from 2014 to 2019, while the fourth quintile's wealth fared not much better. The two highest quintiles showed little interest in borrowing and investing more in housing after 2014, perhaps because many high-income Canadians live in Alberta where house prices were depressed by the crash in oil prices (although this is speculative because data on provincial wealth are not available). Households in the second and third quintiles invested the most in real estate after 2014. However, these quintiles also borrowed heavily to purchase their homes, which slowed the increase in their net housing wealth.[7] Meanwhile, the wealth of the lowest quintile posted the fastest gains from 2014 to 2019, after lagging in the first half of the decade.

7. In particular, growth of the second quintile's mortgage borrowing quadrupled from 13% between 2010 and 2014 to 42% from 2014 to 2019; mortgages for the middle quintile accelerated from 18% to 37% over the same period.

Growth of wealth for the lowest quintile leapfrogged all the others after 2014 as a consequence of two factors. Their financial assets grew faster than any other group, rising 38% from 2014 to 2019 (financial assets for the other quintiles expanded by about 30%). At the same time, the lowest quintile saw housing assets rise 29% while mortgage liabilities increased by only 21%, allowing these people to extract more net worth from their real estate assets than any other quintile. It may be possible that this quintile, which has a disproportionately large number of young people, was able to increase its real-estate holdings with financial help from parents (who dominate the highest two quintiles). Such intra-family transfers do not appear in the official statistics for wealth, which demonstrates another shortcoming in our knowledge of the determinants and the limitations of data on wealth.

Wealth in Canada is distributed differently than it is in the United States

Milanovic claims that in the United States "the top decile of wealth-holders control more than 90% of financial assets" (Milanovic, 2019: 65). Financial assets are distributed much more equally in Canada than in the United States. Statistics Canada data show the top income quintile—a bigger group than the decile just cited for the United States—holds just over half (50.9%) of all financial assets in Canada. As a result of its greater holdings of financial assets, Canada's middle class is less dependent on net equity in housing and therefore is less vulnerable to a downturn in the housing market.

The distribution between financial and non-financial assets is not markedly different among the five income quintiles in Canada. Financial assets accounted for 39.8% of total assets held by the lowest income quintile in 2019.[8] This rises slowly but steadily by quintile to a high of 59.5% for the top income quintile. Furthermore, most of the slightly lower holdings of financial assets for lower-income people reflects fewer life insurance and pension assets. One can reasonably infer this is because they count on government-provided pensions[9] and therefore do not need assets in pension savings accounts. Excluding life insurance and pensions, financial assets account for 27.4%, 25.2%, 23.6%, and 27.0% of assets held by the four lowest quintiles.

Middle-class wealth in Canada is not as dependent on housing as it is the United States. The net equity held in housing (the value of real estate assets less mortgage liabilities) in Canada ranges from 48.8% for the lowest quintile to 32.8% for the highest. By comparison, housing accounts for 80% of US middle-class wealth, which means middle-class wealth in the United States would be wiped out by a 20% drop in housing prices (Milanovic, 2019: 32). No income quintile in Canada is as vulnerable to lower house prices.

Despite the much different trend of wealth and its composition in Canada compared to the United States, many of the narratives about US wealth inequality have been

8. Data in the rest of this section come from Statistics Canada, 2020b, table 36-10-0585-01.

9. Mostly Old Age Security and the Guaranteed Income Supplement, which are targeted to low-income and middle-class people.

imported without modification into Canada. This has led to a widespread misperception of the degree of inequality in Canada, whether inequality actually was widening, and the vulnerability of low-income people to unexpected events. The anxiety and insecurity fostered by these erroneous narratives helps fuel some of the misguided interest in a wealth tax.

Older Canadians posted larger gains in wealth irrespective of income

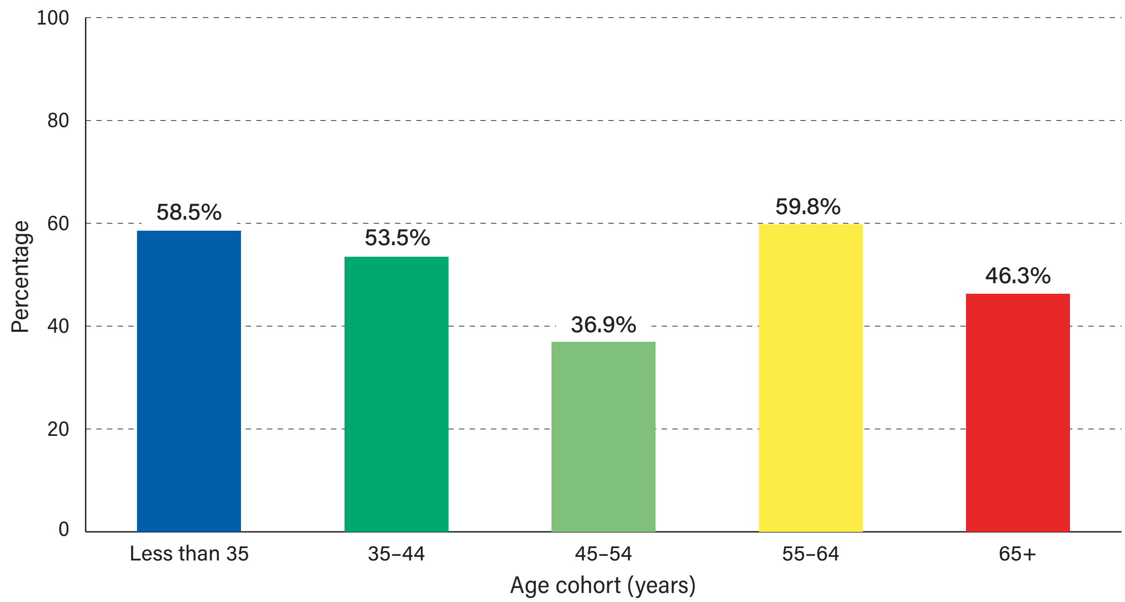
Examining some of the factors behind the recent changes in Canada's wealth highlights the complexity of wealth's determinants and the simplistic or outright fallacious beliefs behind the push for a wealth tax. For example, an intimation that the greater concentration of wealth is driven by a sinister internal dynamic of capitalism that favours the wealthy is contradicted by how much of the recent increase in wealth simply reflects the ageing of the population. This shows how a tax on wealth can easily morph into a tax on age; Sarlo estimated that life-cycle effects accounted for between 80% and 87% of wealth inequality in Canada (Sarlo, 2017: i).

Older people account for a rising share of total wealth mostly on account of their growing numbers, not because they are individually becoming markedly wealthier than younger generations (in fact their wealth trailed gains by both Generation X and Millennials). Total wealth increased the most between 2010 and 2019 for the two oldest age groups, rising 102.6% for people 65 years and older, and 97.1% for people between 55 and 64 years. The number of households in the older age groups either 65 years and older or between 55 and 64 years old grew by 56% and 37%, respectively, the inevitable result of our ageing population. Wealth increased by 69.6% and 67.7% for the two youngest age groups of 35 years or less and those between 35 and 44 years. The population of households less than 35 years old or between 35 and 44 years increased by only 11% and 14%, respectively. Wealth rose the least, only 20.0%, for middle-aged people between 45 and 54 years old. The number of middle-aged households between 45 and 54 years fell outright by 17% between 2010 and 2019.

Changes in net worth per household removes the impact of population growth on total wealth. The results show the growth in wealth was much more evenly distributed after standardizing for changes in the number of households (figure 3). The wealth per household of the oldest age group (65 years and over) rose by 46.3%, the second smallest gain among the five age groups. Households of those between 55 and 64 years posted the largest increase in average wealth, 59.8% between 2010 and 2019, followed closely by gains of 58.5% for the youngest group (less than 35 years old), and 53.5% for 35-to-44 year olds. The middle-aged group between 45 and 54 years still lagged with a 36.9% in wealth, but their gap with the other groups was markedly less after adjusting for their declining numbers.

Further disaggregating the age groups by income quintiles confirms that age was more important to wealth trends than income. Older people are increasing their wealth irrespective of income, which is hardly surprising as they all approach or enter retirement without bearing the heaviest expenses of paying for mortgages and raising children. The five income quintiles over 65 years old all posted gains ranging from 93% to 140%, while

Figure 3: Growth (%) of net wealth per household, by age cohort, 2010–2019



Notes: [1] Age groups refer to the age group of the major income earner. [2] The coefficients of variation from Statistics Canada's *Survey of Financial Security* for 2012 and 2016, which serve as indicators of the accuracy of these estimates for net worth and its components, are available in the appendix to *Distributions of Household Economic Accounts*, estimates of asset, liability, and net worth distributions, 2010 to 2019, technical methodology and quality report for the March 2020 release.
Source: Statistics Canada, 2020b: table 36-10-0585-01.

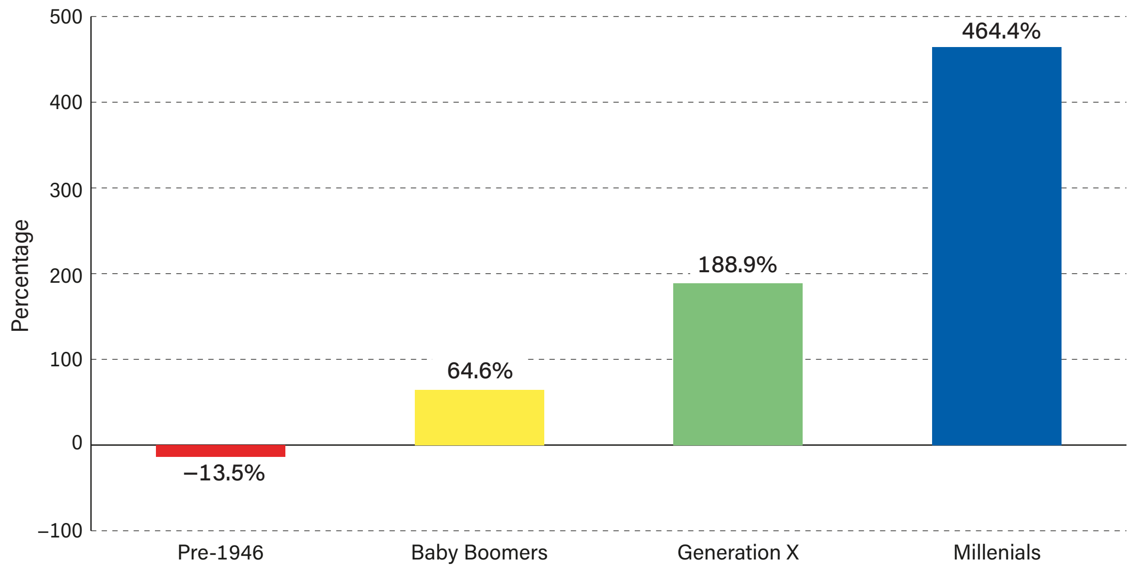
the 55-to-64 year old cohort recorded growth of between 63.1% and 158.6% depending on their incomes. Generally the younger cohorts posted below-average gains, with the notable exceptions of the lowest-income quintile for households under 35 years. Middle-age people lagged in most income quintiles. The only one of the 25 age and income groups whose wealth declined outright was the lowest income quintile for 35- to 44-year olds.

Growth of wealth lags for Baby Boomers

Some of these changes in wealth held by different age cohorts reflect how the ageing process shifted people from one cohort to another over the past decade. For example, a 40-year-old would be in the 35-to-44 year group in 2010 and then a decade later would be part of the 45-to-54 year cohort. To remove this effect, Statistics Canada compiled longitudinal data on wealth from 2010 to 2019 for four generations: people born before 1946; Baby Boomers, born between 1946 and 1964; Generation X, born between 1965 and 1980; and Millennials, born after 1980.

The results show wealth grew faster for the younger generation than the older over the past decade. The net worth of people born before 1946 (and who are 75 years or older today) fell in absolute terms by 13.5% between 2010 and 2019 to $1.7 trillion (figure 4). The decline in wealth for the oldest generation is not surprising, since they are consuming without replenishing their wealth while their numbers are declining in absolute terms as death takes its inevitable toll (transferring their wealth mostly to their Boomer children). The wealth of Baby Boomers rose by 64.6% to $5.8 trillion, entirely the result of a gain of

Figure 4: Growth (%) of wealth, by generation, 2010–2019



Notes: [1] Age groups refer to the age group of the major income earner. [2] The coefficients of variation from Statistics Canada's *Survey of Financial Security* for 2012 and 2016, which serve as indicators of the accuracy of these estimates for net worth and its components, are available in the appendix to *Distributions of Household Economic Accounts*, estimates of asset, liability, and net worth distributions, 2010 to 2019, technical methodology and quality report for the March 2020 release.
Source: Statistics Canada, 2020b: table 36-10-0585-01.

$2.2 trillion for those 65 years and older (the wealth of boomers less than 65 years was unchanged). Meanwhile Generation X saw their wealth rise 188.9% to $3.2 trillion and Millennials posted a gain of 465.5% to $1.0 trillion.

The faster increase of wealth for younger generations in Canada contradicts Piketty's assertion that wealth dynamics imply that "the past devours the future". It helps refute the widely held narrative that future generations are doomed to a lower standard of living. Already, the total wealth held by Generation X is very close to the wealth of Baby Boomers just ten years earlier, despite Generation X being fewer in number. The wealth per household of Generation X in 2019 surpassed the Baby Boomer average in 2010 ($747,503 versus $687,769). People in Generation X made these gains in wealth even though they are not yet in the peak income and savings years reached just before retirement (the oldest Generation X person just turned 55 years old; the youngest is 40).

The slight decrease in both wealth and income inequality in Canada over the past decade has implications for the international debate about inequality. When investigating the often-stated perception of growing inequality in the United States, analysts offer explanations that make the trend seem irresistible, including a rising share of capital income, a higher return on capital, greater assortative mating, and easy monetary policies that boost asset prices. Many of these factors also were at work in Canada, and yet our inequality did not increase after 2010. This suggests either that the explanations offered to explain rising inequality in the United States are not as complete or as powerful as many think, or other factors are offsetting them in Canada but have been overlooked by analysts.

Public pensions significantly affect the distribution of wealth

The preceding analysis showed how not all assets appear in the data for individual wealth and how households change their savings and wealth because of the existence of claims on public pensions that do not appear as assets. This demonstrates that defining which assets to include in wealth is not as straightforward as it would seem. For example, not all assets held in the name of, and for the benefit of, an individual are owned by that person. This is the case for government pensions such as the Canada Pension Plan. Data on household wealth also are not adjusted for future pension payments (such as the GIS or OAS) paid out of general tax revenues. Nevertheless, these future pensions clearly affect the savings and investment decisions of low- and middle-income earners, who respond to these programs as if they were the same as pension income generated by their own capital assets (as noted in the previous section, those with lower-incomes accumulate fewer pension and life-insurance financial assets). Meanwhile, pension assets held in individually controlled accounts such as RRSPs are included in wealth.

Robert Fogel estimates that in the United States nearly half of taxes "represent deferred income or forced savings" (Fogel, 2000: 197). The government acts as an intermediary to collect the money needed to fund retirement or health care. If the money were set aside in an account in the name of the individual, it would be formally recognized as a wealth asset. But in most government programs operating on a pay-as-you-go (PAYGO) basis—where contributions deducted from the wages of active workers are used to pay the pensions of retirees and therefore are not invested—the government transfers the money collected from taxes to a person who had earlier deferred their consumption, while promising current taxpayers that "when he or she is ready to retire, the government will find new taxpayers to provide the promised funds" (Fogel, 2000: 198).

If our pension system had been constructed using capitalized pension plans, where contributions by individuals were invested instead of immediately paid out as benefits, the statistics on the distribution of wealth in Canada and other countries using PAYGO systems would look much different but the reality of how people lived would not. James Davies and Anthony Shorrocks found that adjusting wealth for pension rights and social security entitlements in the United Kingdom would reduce the share of the top 1% from 17% to 10% and the share of the top 10% from 48% to 34% in 1994. Similarly, in the United States, the share of the top 1% would fall from 30% to 20% in 1981 (Davies and Shorrocks, 2000: 641).

4 Wealth taxes generate little net revenue

One of the political attractions of a wealth tax is it plays on the populist fantasy that the tax burden can be shifted painlessly to rich people or corporations. Some politicians make demagogic claims that large tax cuts for the middle class or expensive new social programs can be financed by asking the rich to pay more. The Liberals and the NDP in Canada have made this appeal in Canada (Cross, 2020). In the United States, Bernie Sanders claimed his wealth tax would generate $4 trillion over a decade, while Elizabeth Warren's version promised to yield $500 billion over the same period (Zeballow-Roig, 2019).

However, past experience suggests that wealth taxes, like increased income taxes on high-earners, do not generate the gusher of revenues envisaged by advocates. Countries that implemented a wealth tax have not raised significant revenues. For example, the wealth tax on individuals raised the equivalent of 1.0% of GDP in Spain and Switzerland, 0.4% in Norway, and 0.2% in France in 2017 (OECD, 2018: 18). The wealth tax proposed by the NDP is generously estimated to yield the equivalent of 0.2% of Canada's GDP, as discussed later in this paper. None of these amounts significantly affect either government finances or the distribution of wealth.

The revenues generated by wealth taxes have remained low despite the surge in asset prices over the past decade. In the words of the OECD, wealth taxes "have generally not increased despite significant wealth growth". It explains this paradox by the design of wealth taxes, the difficulty of updating assets values, and "tax avoidance and evasion behaviours" (OECD, 2018: 19).

The recent history of wealth taxes should give pause to proponents. In 1990, 12 European countries had a wealth tax over and above property taxes, according to the OECD (2018: 16). By 2018, that number had dropped to four (Spain, Switzerland, Norway, and Belgium). Austria repealed its wealth tax in 1994, Denmark and Germany in 1997, the Netherlands in 2001, Finland, Iceland, and Luxembourg in 2006, and Sweden in 2007. Spain gave a 100% tax credit to effectively lower its wealth tax to zero in 2008 before raising it in 2010 after the financial crisis (OECD, 2018: 16).

Why have so many nations ended experiments with taxing wealth? The reasons include disappointing revenue collections, questionable legal foundations, and high administrative costs. France scrapped its wealth tax in 2017 after concluding its three-decade experiment had mostly resulted in an exodus of wealthy people from the country: the French economist Eric Pichet estimated the outflow of wealth from France cost the government twice as much revenue as the wealth tax generated (Zeballow-Roig, 2019). Germany's wealth tax was ruled unconstitutional for its unequal treatment of different assets (Zeballow-Roig, 2019). Austria abolished its wealth tax in 1993 "mainly due to the high administrative costs that accrued in the data collection process and because of the economic burden the wealth tax meant to Austrian enterprises" according to a study from the Leibniz Institute for Economic Research at the University of Munich (Drometer *et al.*, 2018).

Revenues limited by low rate and narrow base

The paltry revenues raised by wealth taxes reflects that their rate is low and the base it covers is narrow. First, a wealth tax usually is set at a low rate because most assets except housing can be moved easily. This was the case in Europe, where wealth taxes are tied to residence and not citizenship and assets can be shifted within the European Union. As well, as will be shown later, the interaction of even a low wealth tax with capital income taxes creates a high marginal tax rate that increases the incentive for tax avoidance.

Second, exempting many assets and establishing high thresholds means the base of taxable wealth is small. In particular, pension and housing assets usually are exempt and the threshold at which wealth taxes are applied is almost always deliberately set very high precisely so most people do not have to pay. Excluding homes and pension assets exempts most wealth from taxation. For example, in Canada half of wealth in 1999 was held in principal residences and another 16% in RRSPs (Morisette, Zhang, and Drolet, 2002: 17–18). Excluding these assets right away removes almost two thirds of wealth assets from taxation. A small tax base sharply lowers potential tax revenues and the ability to reduce inequality (Statistics Canada concluded that principal residences made "by far" the largest contribution to the inequality of wealth) (Morisette, Zhang, and Drolet, 2002: 17–18). A high threshold means that a wealth tax targets only the wealthiest households. This further shrinks the revenue base to a small percentage of wealth. In Canada, the top income quintile accounts for less than half of all wealth and, after the inevitable exemptions for assets such as housing and pension savings, a wealth tax would target only a fraction of this group. For economists, the guiding principle for taxes is "widen the base, lower the rate" (Watson, 2016). The opposite happens for wealth taxes, where the operating principle quickly becomes "shrink the base, keep the rate low". It is not surprising such a tax raises little revenue and does not lower inequality.

On top of limited revenues, the funds generated by a wealth tax are volatile and pro-cyclical. So when governments need revenues the most during economic downturns (such as the severe 2020 recession), collections from a wealth tax would slide even more than income taxes, aggravating the upward pressure on government deficits.

There is the possibility that Canada or other countries burdened by unsustainable debts rung up during the pandemic crisis will turn to a one-time tax on private wealth. This sentiment was encouraged by a petition signed by 83 millionaires across the western world (including several, such as the Disney family, who inherited their wealth) explicitly invited governments to tax wealth to pay for coronavirus relief.[10] One argument for a one-time wealth tax is that, because it is unexpected and (supposedly) would not to be

10. *Togoh, 2020*. Despite such publicity stunts, most of the well-off chose to spend their money on other activities such as contributing to charities, political causes, or re-investing in their own enterprises. Many wealthy people do not see giving money to government as an efficient use of their money. It is telling that Bill Gates formed his own charitable foundation rather than donate money to the US government. If some wealthy people feel they have too much money and want to pay more taxes, there is nothing to stop them from sending more money to the federal government without compelling others to adopt their beliefs.

repeated, it might generate substantial revenues since there would not be time for evasive action to reduce the tax bill. The hope also is people will not alter their behaviour to avoid such a tax in the future, although the latter assumes that people believe such a tax would not be repeated even after paying substantially for previously holding this belief.

Boadway and Pestieau contend that such a one-off wealth tax "amounts to an unannounced confiscation of wealth" (2019: 4). The impact of a one-time wealth tax would be lasting: owners of capital assets would never trust a country not to impose such a surprise confiscation again, and would shift their capital into tax shelters or out of the country. Former Prime Minister Jean Chretien wrote that "There is nothing more nervous than a million dollars—it moves very fast, and it doesn't speak any language" (Chretien, 2007: 364).

The very legality of confiscating wealth is questionable in some countries. German courts eventually declared its wealth tax unconstitutional precisely "because of its confiscatory nature" (Boadway and Pestieau, 2019: 9). There is a recurring question in the United States about whether a wealth tax is unconstitutional, with scholars saying a wealth tax would have to be designed to look like an income tax (which is backed by a Constitutional Amendment). Larry Summers, the former US Treasury secretary, said there was very little chance a wealth tax would pass through Congress, and if it did "the Supreme Court has better than a 50% chance of declaring [it] unconstitutional".[11]

Wealth taxes are costly to administer and collect

Compounding the lack of revenue, nations that levied a wealth tax found it expensive and difficult to collect accurate prices for wealth assets, especially the sort of assets that are not widely held and therefore are the most likely to be taxed. A wealth tax is costly to administer for several reasons. The easiest taxes to collect are for transactions where one of the parties involved has an incentive to honestly report the details to government. Kopczuk observed that most parts of the taxation system function "automatically" because this incentive exists. Employers report income paid to employees because it is a deductible business expense (Kopczuk, 2019: 5). Businesses account precisely for the GST because most is rebated by governments, which only collect the tax on value-added revenue. Banks and security brokers report financial transactions by their customers because they have only an arm's length relationship with them that is not worth the risk of government penalties for non-disclosure.

Problems in taxation arise when the incentive to be transparent does not exist. Transfer pricing in corporate bookkeeping is problematic because cross-border transactions within a firm minimize taxes and maximize profits. Small business and sales taxes

11. The legality of the US income tax itself was repeatedly challenged in the late 19th and early 20th centuries, partly on the grounds that it violated the principle of equal treatment of all income. As one US Supreme Court Justice wrote, "it is class legislation, and leads inevitably to oppression and abuses ... It is the same in essential character as that of the English income tax statute of 1691, which taxed Protestants at a certain rate, Catholics, as a class, at double the rate of Protestants, and Jews at another and separate rate" (Justice Field, quoted in Blum, and Kalven Jr.,1953: 7).

give the customer an incentive to pay cash and save on taxes (Kopczuk, 2019: 6). A wealth tax is rife with administrative problems because it creates an incentive for the taxpayer to minimize reported wealth and asset prices. Asking people to evaluate their own worth is an invitation to under-reporting. The alternative of asking outside assessors to do the job is expensive and fraught with disputes about the valuation of illiquid assets that will be difficult to resolve.

Compiling annual data on wealth is complicated. While prices for some assets such as stocks, bonds, and homes are easy to determine, other asset prices are much harder to estimate. Problematic asset valuations include private equity holdings, the value of unlisted businesses, and illiquid assets such as works of art. By definition, it is easiest to price assets that are widely held, such as housing and stocks and bonds. However, their very popularity means such assets are usually exempt from a wealth tax, as is the case in Canada for principal residences as well as stocks and bonds held in pension savings. By default, wealth taxes fall mostly on assets that are not widely held, which are, therefore, hard to price. This conundrum in applying a wealth tax is difficult if not impossible to resolve.

People and wealth move to avoid taxes

One reason wealth tax rates are set low and generate little revenue is the ever-present threat that wealth can easily be shifted to another jurisdiction. The OECD concluded that when faced with a wealth tax, “taxpayers respond more through tax avoidance and evasion than through changes in real behaviour” (OECD, 2018: 68). Moving wealth has long been the primary response to a wealth tax. Adam Smith remarked on the mobility of the wealthy to avoid taxes over two centuries ago. In the *Wealth of Nations*, he wrote “the proprietor of stock is properly a citizen of the world and is not necessarily attached to any particular country. He would be apt to abandon the country in which he was exposed to a vexatious inquisition, in order to be assessed to a burdensome tax, and would remove his stock to some other country where he could either carry on his business or enjoy his fortune more at his ease” (quoted in Milanovic, 2019: 241). Since 1776, the ease of moving wealth and people has increased exponentially with the proliferation of new financial assets.

High tax rates directly created the tax evasion industry. Zucman concluded that the high levels of taxation on upper incomes in Europe to pay for the First World War created Switzerland’s financial centres and “the industry of tax evasion was born” (Zucman, 2015: 9). He estimated that 8% of global wealth today is held in tax havens (Zucman, 2015: 53). This suggests that investors are worried about the legal or illegal confiscation of their wealth. Whatever the motive, it would be naïve to think someone who had gone to the trouble of setting up offshore accounts will voluntarily disclose this information to tax authorities. The possibilities for moving money across borders are large and growing as technologies such as cryptocurrencies proliferate.

It is relatively easy for wealthy people to move assets to one of the many jurisdictions in the developed world that do not tax wealth. The OECD found that among the top quintile of wealth, 42.4% of all financial assets were held as bank deposits (OECD, 2018: 37). Bank deposits easily can be transferred overnight to the United States or almost any

other major country in Europe or Asia. While advocating for the principle of a wealth tax, Piketty acknowledged that without the automatic sharing of bank information "both inside and outside EU territory (starting with Switzerland among non-member states) the risks of evasion would be very high" (Piketty, 2014: 528).

Nearly matching the ease with which capital can be moved around the world is the ability and willingness of people to move themselves across borders to avoid or minimize taxes. A NBER study of estate taxes on billionaires found that between 2001 and 2017, 21.4% of the *Forbes* list of the 400 richest people moved from states that levied an estate tax to a state without one. Conversely, only 1.2% of those living in a state without an estate tax moved to a state with one (Gorman, 2020: 4). As a result of these cross-state moves, $80.7 billion in wealth was no longer subject to estate taxes in 2010. Moreover, those states that did not collect an estate tax, and therefore received an influx of people with assets of high net worth, were able to collect income-tax revenues from these individuals.

Moving to avoid wealth taxes is more than an American phenomenon. The experience of Switzerland and Denmark shows a similar aversion to wealth taxes. Despite a low level of wealth taxes in these two nations, researchers found a highly mobile response, probably because people were next door to prosperous and stable countries with no wealth taxes (notably Germany). The case of Switzerland is particularly interesting because the wealth tax varies by canton, which encourages internal migration. Researchers found that at the level of a canton[12] a "1 percentage point increase in wealth taxes leads to 43% lower wealth holdings after five years. When we focus on the ten largest reforms, this semi-elasticity doubles in size" (Brulhart, Gruber, Krapf, and Schmidheiny, 2020: 37).

The willingness to avoid a wealth tax by moving has to be a major concern for Canada, since over 80% of Canadians live within 200 km of the US border. In Canada's case, our open border with the United States—at least outside of pandemics—ensures easy access to a jurisdiction with few wealth taxes. The recent pandemic demonstrated how technology increasingly allows people to separate their residence from their place of work, especially the professionals and investors who are most likely to be subject to a wealth tax.

Relocating is not an idle threat for globetrotters. Credit Suisse estimates that about one third of wealthy individuals with financial assets of between $1 and $5 million had a second passport or dual citizenship (this represents about 10 million people worldwide) (Milanovic, 2019: 135). *The Economist* expressed concern that Labour Party plans to raise the income tax and impose a "mansion tax" on houses worth over 2 million pounds, if implemented, "risk chasing away the most enterprising, particularly the footloose global talent that London attracts" (quoted in Zevin, 2019: 372). There are several high-profile examples of people moving from one country to another to reduce their tax load. The Swedish film director Ingmar Bergman left his homeland in the late 1970s when "tax inspectors harassed him and seized his records in the middle of a rehearsal—based on a misunderstanding about his corporate rather than personal taxes".[13] The actor Gerard Depardieu in 2012 moved from France across the border to Belgium to avoid the wealth

12. There are 26 cantons, or administrative districts, in Switzerland.

13. *The Boston Globe* quoted in Shiller, 2019: 49.

tax imposed by the Socialist government of Francois Hollande. Margaret Thatcher's official biography noted that her son Mark lived in Dallas "and could not spend much time in Britain since he wished to avoid paying British income tax" (Moore, 2019: 812).

Increasingly, people do not have to move physically to reduce their taxes. Milanovic remarked on "one of the novel aspects of globalization, where domestic capital is held offshore to benefit from lower taxes and better property protection, but is then invested in the country of origin in the guise of foreign investment to benefit from better conditions afforded to foreign investors" (Milanovic, 2019: 168). Although currently this tactic is mostly concentrated in nations like Russia and India, it does show the creativity of investors in lowering their tax load.

The result of the difficulty of collecting wealth taxes is that they fail to deliver the gross revenues envisaged by redistributionists while the cost of administering and collecting then further reduces net revenues. As a result, there is limited scope for funding new government spending programs or reducing inequality.

5 Wealth is hard to define and measure

This paper has already delved into the practical difficulty for governments trying to collect a wealth tax in a world where most wealth is mobile and taxable assets are often hard to price. *The Economist* observed that wealth, like income, was "fiendishly complicated to calculate" (2019).

Different methods of estimating wealth yield different results

Columbia University's Wojciech Kopczuk detailed how the complications in estimating wealth result in different methods yielding quite different results (2014). There are four basic approaches to estimating wealth. The first uses surveys, such as those conducted by the US Federal Reserve Board and Statistics Canada, that ask people about their wealth. A second is the capitalization method, which takes tax data on the flow of capital income to estimate the stock of wealth needed to generate this income stream. The third is the estate multiplier method, which uses data from estate-tax returns to estimate wealth at the top of the distribution. The fourth uses lists of high-wealth individuals, such as those compiled by *Forbes* in the United States and *Canadian Business* in Canada. It is worth noting that the approaches using estate-tax returns and lists only estimate wealth for the top and not the whole distribution of wealth, and therefore cannot be used to study inequality without drawing on other sources.

It matters which of the four methods is chosen, as there are systematic biases in their conclusions about the course of wealth inequality. In practice, surveys and the estate-tax method show little or no rise in the share held by the wealthiest, while the capitalization approach finds an increase in inequality in the United States although the timing varies (Kopczuk, 2014: 15). For example, Saez and Zucman (2019) use capitalization to justify their claim that the share of the top 1% in US wealth has almost doubled since 1980 to nearly 40%, while Smith, Zidar, and Zwick (2020) use the same method but find the increase was only half as much before the Great Financial Crisis and has since retreated slightly. The range of estimates reflects the difficulty of determining wealth and its distribution. Lists of wealth show a large increase among the wealthiest in recent decades.

There are few estimates of wealth inequality in Canada, which has not stopped advocates of a wealth tax from insisting rising inequality has become a problem. Statistics Canada made irregular surveys of wealth, sometimes with unreliably small samples, until the global financial crisis prodded it to regularize its data collection starting in 2010. More recently the PBO used lists of the wealthy from *Canadian Business* magazine to estimate top-end wealth. There have been few if any attempts to apply the estate tax or capitalization methods in Canada. So, much of the discussion in this section necessarily is based on research for other countries, mostly the United States.

Each of the four methods has strengths and weaknesses. Survey data have low response rates among high-wealth individuals, apparently because of the time it takes to

respond. As well, surveys omit wealth held in defined benefit pension plans and government pension plans (Kopczuk, 2014: 6). The estate-tax approach requires assumptions about mortality rates of the wealthy compared with the rest of the population. This is because the distribution of wealth of people who died in a particular year are used to project the wealth of all living people, and the mortality rate of the two groups are different (Kopczuk, 2015: 47). The estate-tax method can only be used to calculate the wealth of people rich enough to pay this tax, and it also is affected by tax avoidance through estate planning. One advantage of investigating estate taxes is that data on liabilities are captured better than it is by the capitalization method (Kopczuk, 2015: 50).

The capitalization method assumes that capital income (k) reflects the rate of return (r) on wealth (W) (mathematically, $k = rW$). Since capital income (k) is known, by assuming a certain value for the rate of return (r), one can calculate the value of wealth (W) that generates the observed value of k. However, this method is highly sensitive to assumptions about the rate of return: doubling the rate of return from 2% to 4%, for example, slashes the estimated stock of wealth (W) in half.

Studies using the capitalization approach often assume that the wealthy earn the same rate of return on investments as everyone else, which suggests they are wasting their money employing financial advisors and accountants. There is reason to believe that the wealthiest people have unusually high returns to investment. Smith, Zidar, and Zwick (2020) find the wealthy earn about 6% on average from investments, while the middle class earns 1% on savings accounts and other low-risk assets (Cochrane, 2020: 2). A higher rate of return means the underlying stock of wealth will be over-estimated by the capitalization method.

The capitalization method also excludes all categories of assets that do not generate capital income subject to taxes, most notably owner-occupied housing. Works of art, closely-held businesses, and farm assets are also excluded, and these assets accounted for 4%, 10%, and 3.7% of assets reported on US estate tax returns (Kopczuk, 2014: 10). As well, the lower tax rate on capital income give people an incentive to shift some types of labour income to capital income, which exaggerates either the rate of return or wealth or both. Cochrane points out that the lower tax rate on capital income does not mean the rich get a tax break, because they already paid high taxes on income when it was first earned—before it was invested—and they then pay a second round when it is invested and generates a stream of capital income (Cochrane, 2020: 7).

The time periods covered by the various methods also vary. Data for estate and income taxes often go back over a century, allowing the estate-tax and capitalization methods to study trends in wealth over long periods. Survey data only began to be collected recently, with first results for North America in the 1980s.

The lists compiled by journalists have their own difficulties. Inevitably, they contain errors because many of the valuations are little more than guesses about the class of assets held by the wealthy, their price, and the liabilities associated with these assets. A direct comparison of individual estate-tax returns and *Forbes*' estimates of their wealth by the Internal Revenue Service (IRS) in the United States found that the estate data on wealth was about 50% lower than *Forbes*' estimates (Kopczuk, 2015: 57). As well, the

latitude for discretion applied by the individual journalist opens the door to personal biases. The magnitude of these possible errors is demonstrated by the attempts to estimate the wealth of Donald Trump before he became President.

A case study of the difficulty of estimating wealth—Donald Trump.

Donald Trump provides an excellent example of the difficulties estimating the net worth of an individual. No public figure has had his wealth examined as closely as Trump, especially after he launched his successful campaign for the Presidency partly on the narrative that his wealth demonstrated his qualifications (after launching his Presidential bid, Trump publicly boasted of a net worth "in excess of TEN BILLION DOLLARS").[14] Despite all this scrutiny, estimates of Trump's wealth vary widely. The difficulty of calculating Trump's wealth explains why estimates vary from his own boast of more than $10 billion to *Forbes*' estimate of $4.5 billion and *Bloomberg*'s $2.9 billion (Cassidy, 2016). The difference between the *Forbes* and *Bloomberg* estimates mostly reflects differences in how the two publications appraised his individual properties. Despite *Forbes*' higher estimate, Trump complained it was still too low, lamenting, "[i]t's embarrassing to me" (Cassidy, 2016).

Forbes magazine compiles an annual list of the world's 400 wealthiest people, including Trump. Its methodology is based on the capitalization approach that "involves trying to figure out how much income Trump's businesses produce, and then using these estimates and the prices of comparable assets to attach a reasonable value to them" (Cassidy, 2016). For example, Trump's estimated pre-tax income of $160 million in 2016 was capitalized into a wealth estimate of $3.2 billion with a rate of return of 5% on his assets.

One of the reporters responsible for estimating Trump's wealth for the *Forbes 400* list—always its hottest-selling issue[15]—described how difficult it was to come up with these numbers. Trump would regularly exaggerate his ownership stake in companies and minimize his debt, while his employees and Trump himself pressured *Forbes* to be listed as high as possible. When Trump was included in the first *Forbes 400* list in 1982, his net worth was estimated at $100 million; the reporter who made that estimate later revised it to $5 million (Greenberg, 2018).

The differing estimates of Trump's wealth from the same reporter demonstrates several pitfalls with lists of wealthy people. It is hard to judge which assets should be included, how some of those assets are valued, and how liabilities are calculated and allocated. As Cassidy notes, Trump's newer assets such as golf courses could generate more income in the future than they do now (Cassidy, 2016). Trump's estimated income does not include a future income stream coming from the value of the Trump brand, something Trump was using to negotiate licensing deals around the world.

14. Nguyen, 2016. The capitalization is Trump's.

15. It is a comment on how society has evolved that belonging to the *Forbes 400* billionaire list has become more important than your company being on the *Fortune 500* list of the largest corporations. Another worrisome development is that the obsession with individual wealth estimates led *Bloomberg* to issue daily updates of its list.

Trump himself appears to conflate income with revenues, overlooking the expenses in running his various assets. Moreover, it is unclear if Trump's loans and mortgages were properly accounted for, especially his share of mortgages taken out against properties for which he is part owner. So while Trump and his Kushner in-laws are perceived as wealthy in terms of assets, "they also owe enormous debts, and it has never been clear for either family how those two figures balance. Trump has teetered on the edge of ruin again and again through his career" (Frum, 2018: 55).

The PBO's estimates of the wealthiest Canadians

The Parliamentary Budget Officer (PBO) made a highly publicized attempt to estimate the possible revenues that could be generated by the NDP's proposed 1% tax on wealth over $20 million. It deployed an elaborate methodology involving several questionable assumptions. While making a perfunctory acknowledgement that its estimates were uncertain, the PBO did not specify the degree of uncertainty despite the obvious volatility of asset prices in 2020 when its study was released. The PBO did not discuss that using lists of wealth compiled by journalists could well have exaggerated its estimate; for example, its first estimate of the wealth of the top 1% exceeded Statcan's assessment of the total wealth of all households. Nor did it elaborate that there are other methods to estimate wealth, although it did include a technical box on the shortcomings of survey data such as used by Statcan.

The PBO model begins with data on high net worth families from Statistics Canada's *Survey of Financial Security* (SFS). It first recalibrated these results to align the total amount of wealth with the more comprehensive estimates from the National Balance Sheet Accounts (Statistics Canada, 2020a). It then adjusted these wealth estimates for sampling errors in the SFS, especially non-response from high net-worth families, based on *Canadian Business* magazine's estimates of the wealth of the richest Canadians. This adjustment had the effect of doubling the share of wealth held by the top 1% of Canadians (Can-PBO, 2020: 8).

The PBO did implicitly acknowledge the limitation of "rich lists" compiled by business magazines when it noted that the list compiled by *Canadian Business* contained some billionaires missing from the *Forbes* list (Can-PBO, 2020: 12). However, it failed to acknowledge that if *Forbes*, with all its resources and the global scrutiny attached to its list, can make mistakes, so can *Canadian Business* or any other news outlet. As noted earlier, internal studies by the IRS found the *Forbes* estimates of wealth were twice as high as more precise data from estate taxes. Nevertheless, the PBO accepted the *Canadian Business* results without questioning their accuracy.

However, after adjusting its wealth estimate based on the *Canadian Business* data, the PBO produced a figure for the total wealth of the richest Canadians that exceeded the National Balance Sheet estimate of the wealth held by all households. Using a new set of assumptions and estimates, the PBO corrected for this discrepancy by lowering financial assets by 5.8% and non-financial assets by 13.0% while raising liabilities by 12.8% (Can-PBO, 2020: 18). The PBO then lowered its overall wealth estimates by 35% to account for the expected behavioural response of people trying to avoid the wealth tax, based

on estimates drawn from other countries without clarifying that this assumes Canada would have the same interaction between wealth and capital income taxes despite our different tax system (notably our greater reliance on income than consumption taxes compared to Europe).

The PBO's approach also used behavioural results from other countries without adjusting for whether the wealthy in Canada behave differently. The PBO acknowledged that "little is publicly known about the incidence of differential unit non-response in the SFS" (Can-PBO, 2020: 6). In the absence of information for Canada, it used data on the correlation between wealth and non-response from a US survey, ignoring the distinct possibility that the far greater wealth of the rich in the United States would result in behaviour different from that of Canada's wealthiest households. Statistics Canada's attempt to correct for non-response by over-sampling in geographic areas with high incomes was dismissed by the PBO because of evidence that this approach was not effective in Europe, where again a higher level of wealth and the greater reliance on consumption rather than income taxes would result in the rich behaving differently than they do in Canada.

After deducting 2% for the assumed administrative costs of the wealth tax, the PBO arrived at its estimate of net revenues of $5.597 billion in fiscal 2020/21 (Can-PBO, 2020: 2). This assessment has already been made obsolete by the sharp fluctuations in the price of assets during the recession resulting from the coronavirus pandemic. The questionable estimate of wealth-tax revenues was compounded by the PBO projecting revenues would rise steadily by 7% a year to $9.544 billion in 2028/29 based on population growth and gains in asset prices (although the exact methodology for the forecasts is unclear). The reality is that both wealth and therefore revenues from a wealth tax are volatile and unpredictable.

No reputable statistical organization would use the PBO's methodology of layering questionable assumptions, often based on research for other countries, on top of journalists' lists of wealth estimates. While business magazines have the luxury of playing "financial-world parlor games", reputable government agencies do not (Nguyen, 2016). Applying estimates based on the behaviour of households in the United States and Europe to Canada might be justifiable for making a back-of-the-envelope estimate, but is not a sound basis on which to formulate tax policy.

On top of the practical issues raised in this section about measuring wealth, other questions still have to be answered before a wealth tax can be collected. Should wealth be measured for individuals or families (and defining the latter is a particular problem in today's world)? How should liabilities be calculated and allocated? Even after an asset value is determined, decisions must be made about whether the wealth estimate should be made for individuals or entire families. The answer is not obvious: in 1984 a survey of wealth was conducted by Statistics Canada for individuals, while its next survey of wealth in 1999 was done for families.[16]

16. Both surveys were limited to small samples of 15,000, which is why they were replaced by a more comprehensive annual survey starting in 2010 (Morisette, Zhang and Drolet, 2002: 2).

All these prickly issues have to be clearly addressed and answered when imposing a wealth tax. Without definitive clarification from tax legislation about how wealth is defined, the door opens to creative accounting that minimizes the tax take. As Blum and Kalven noted, the unit of time and the appropriate taxable unit are the basis for many strategies designed to minimize the tax burden, including averaging prices and wealth over time, spreading out lump-sum compensation, and carrying over capital losses (Blum and Kalven, 1953: 17).

6 Macro issues—a wealth tax discourages savings and investments, and lowers long-term growth

Economists always express concern that taxing income or wealth lowers the return on earned income, leading individuals to work or invest less. A tax on wealth would apply to some assets society does not want to discourage. In particular, a tax would apply to at least some savings that are set aside for retirement but are not in tax-exempt vehicles since there are limits on sheltered pension savings in Canada. More broadly, the message sent by taxing wealth in Canada is the opposite of encouraging the savings and investments that support long-term growth.

Milanovic notes that the "social contract" surrounding our tolerance of wealth was that capitalists "used most of their surplus income to invest rather than to consume" (Milanovic, 2019: 179). A wealth tax communicates that some money set aside to fund retirement is subject to taxation, but income immediately dissipated on frivolous consumption such as travel, vehicles, jewellery, or fashionable clothes (or even politics) is not. Such a tax system encourages the wealthy to engage in the high-consumption lifestyle of the Great Gatsby rather than save and invest responsibly for long-term objectives. After the imposition of a wealth tax, the true Great-Gatsby curve would reflect a high rate of taxation of savings and investment and a low rate of taxation of spending, encouraging the conspicuous consumption depicted in F. Scott Fitzgerald's novel.

To reduce their tax burden, people subject to a wealth tax would alter their savings and investment decisions in ways that are harmful for society. One distortion created by a wealth tax is that it encourages excessive risk-taking in investment decisions. Since wealth is taxed the same, irrespective of whether it is invested in low-return or high-return assets, investors will be encouraged to invest more in high-risk and high-return ventures (OECD, 2018: 49). Another strategy used to lower wealth taxes is to direct more investments into tax-free assets such as a principal residence, indirectly bidding up house prices in cities such as Vancouver and Toronto where housing affordability is already an issue.

A wealth tax discourages entrepreneurship since most top-end wealth (where a wealth tax would be applied) "is mainly in the form of business assets, which are used to employ people and produce the economy's output" (Cochrane, 2020: 1). More broadly, "even if higher taxes don't discourage the efforts of those who are wealthy, they decrease the incentive for individuals to become wealthy in the future" (Cowen and de Rugy, 2012: 419).

A wealth tax would be particularly burdensome to businesses experiencing temporary periods of low income, especially those just starting up. Nascent business firms

often generate little or even negative income in the first few years. Yet, even as they are struggling to generate the capital to stay afloat, they would be subject to a wealth tax on the value of the assets in their business (OECD, 2018: 63). This can create a liquidity problem similar to that faced by farmers, who have high levels of assets but may be forced to sell some of their land or other assets to pay wealth taxes in years when incomes are low as a result of low prices or a poor crop. The OECD concluded that "there are limited arguments for having a net wealth tax ... the report shows that net wealth taxes tend to be more distortive and less equitable. This is largely because they are imposed irrespective of the actual returns that taxpayers earn on their assets" (OECD, 2018: 2).

Even accepting the PBO's estimate that a 1% tax on wealth exceeding a threshold of $20 million would generate $5.6 billion of net revenues, this represents only 0.2% of nominal GDP in 2019. It would take only a small negative impact on savings, investment, and GDP for a wealth tax to lower Canada's national income more than the revenues generated for government. This would be a very costly trade-off for Canada's overall economy.

Wealth taxes are redundant and punitive when capital income also is taxed

Wealth is already taxed through existing levies such as the property tax and income taxes on the stream of capital incomes that wealth supports (including dividends, interest, capital gains, royalties, and business incomes as well as corporate income taxes).[17] While a wealth tax and taxes on capital income are substitutes for each other, they are far from equivalent because a very small wealth tax represents a heavy tax on capital income.

It is not appreciated enough how "even though wealth tax rates appear nominally small, they are in fact very heavy taxes on the corresponding streams of income" (Kopczuk, 2019: 2). Using the example of a safe 3% rate of return, a 3% wealth tax is equivalent to a 103% tax on the corresponding capital income. This result reflects that a tax on wealth (tW) is exactly revenue-equivalent to a tax on capital (rW) where $r = (1 + r) t/r$. So the seemingly "small" wealth tax of even 1% proposed for Canada are the same as proposals for a hefty tax on capital incomes. The famous saying of Paracelsus, the father of toxicology, that "[t]he dose makes the poison" (Bittman and Kratz, 2020: 13) also applies to a wealth tax.

The impact of a wealth tax is magnified when capital income also is taxed, as it is in Canada and every other major OECD nation. The OECD found that, when seemingly small wealth taxes in France and Spain were layered on top of taxes on capital income, the marginal effective tax rates (METRs) "reached values above 100%, which means the entire real return is taxed away and that by saving people actually reduce the real value of their wealth" (OECD, 2018: 59). As Boadway and Pestieau conclude, from a policy

17. Only one half of capital gains in Canada are eligible for taxation, while dividends from Canadian corporations receive a tax credit. There are solid grounds for taxing capital income less than labour income or consumption, such as compensating for the high risk of failure for small businesses and their limited access to capital markets (Boadway and Pestieau, 2019: 7).

viewpoint "wealth taxes add relatively little to the taxes on capital and capital income that are already in place" in Canada, while they pose "substantial administrative challenges ... These alone are enough to raise red flags about wealth taxation" (Boadway and Pestieau, 2019: 3). A wealth tax can have an advantage over a tax on capital income when the return on assets is difficult to measure, such as for housing and consumer durables. However, most of these assets would be exempt from a wealth tax anyway, notably principal residences. When rates of return are more easily calculated than asset values, such as personal businesses and intangible assets, capital income taxation is less complicated to administer than a wealth tax. This is the case for Canada today.

A wealth tax differs from a tax on capital income in several ways. Taxes on capital income only occur when the return is positive, while a wealth tax applies irrespective of the return, if any, on the asset. Therefore, a wealth tax could aggravate economic downturns by forcing people to sell assets to pay the tax. Because even a small wealth tax is equivalent to a punitive tax on capital income, it can force people with little liquidity to sell or borrow against their assets in order to pay the tax. This includes elderly homeowners having to mortgage their homes or farmers forced to sell some land to pay a wealth tax. In turn, selling some assets would trigger a capital gains tax.

Some businesses are structured so that their assets generate little taxable income. This can be done by retaining most earnings in the corporation or re-investing in the business (Warren Buffett's Berkshire Hathaway is cited as one example) (Saez and Zucman, 2019: 146). Some economists are suspicious that rich people will deliberately realize little income from their business assets, thereby acting to "organize their own illiquidity" (Saez and Zucman, 2019: 152) to reduce their tax burden. However, retaining funds inside a corporation can be a sound business strategy and not just a tax manouver, although in practice it is hard to distinguish between the two. Telling a business how to operate by encouraging spending instead of building cash reserves echoes Mark Carney's famous criticism (which he quickly tried to rescind) of so-called "dead money". There is no such thing. Firms that build ample cash reserves, especially in highly cyclical industries like energy or technology, are buying financial security, not letting money go to waste. The wisdom of this approach became painfully obvious during the coronavirus pandemic, when firms with large cash reserves survived many months of little or no revenues while debt-burdened companies face bankruptcy or need a bail-out from taxpayers.

A wealth tax is double taxation

One of the key economic objections to a wealth tax is that it represents double taxation, irrespective of the overlap between a wealth tax and taxes on capital income. Wealth ultimately comes from income, and usually that income was already taxed by government, often at a rate of over 50% for upper-income earners in Canada (another reason for the disconnect between income and wealth inequality). Income left over after taxes and spending is saved and invested, which becomes part of individual or family wealth. Taxing wealth could even amount to triple or even quadruple taxation depending on how wealth was invested. Take the example of money set aside and invested for retirement,

but not in a tax-exempt pension plan. To begin, the income earned before it is invested in a wealth asset is taxed. The stream of capital income generated by these investments is then subject to taxes. Then the money set aside in these pension plans would be taxed as wealth. And finally, when this income is spent, the purchases are subject to consumption taxes (such as the GST and provincial sales taxes). Some studies have pointed out that overlooking that savings today are spent tomorrow is one reason "regressive taxation under sales taxation is overestimated since future taxes on savings used for consumption are ignored" (Crisan, McKenzie, and Mintz, 2015: 4).

A wealth tax also would apply to illusory increases in asset prices that only compensate for inflation. If most or all of an increase in asset prices reflects a general rise in prices, then taxes are being collected on higher paper wealth that does not make the individual better off. It is relatively easy to index the income tax and transfer system for changes in the Consumer Price Index. It would be much harder to create a price index for assets, especially since many illiquid assets do not have a market price. So in practice inflation of asset prices will continue to affect a wealth tax but not the income tax.

Taxing wealth negates the effect of easy monetary policies

Asset prices soared after the Great Financial Crisis when central banks around the world slashed interest rates and adopted quantitative easing. Low interest rates helped boost asset prices by inducing investors to shift from low-risk assets such as savings accounts into higher risk assets such as stocks. Quantitative easing reinforced this with direct purchases of specific assets by the central bank to bid up their price. Usually this involves purchases of mortgages and bonds since, when their price rises, the yield and therefore their interest rate falls. Much of the post-2009 increase in the top percentile share of wealth was driven by the capitalization method's estimate for fixed-income securities, since they "get capitalized at a high rate when Fed interest rates are low".[18]

By raising asset prices and wealth, central banks hoped spending would be stimulated. A wealth tax would reduce the return on asset purchases and therefore depress demand and the price of assets. Without passing judgement on quantitative easing and easy monetary policies, it is noteworthy that a wealth tax contradicts the intended effect of these policies. Instituting a wealth tax means fiscal policy is openly opposing what monetary policy is trying to achieve. If increased wealth is regarded as bad for a society, consistency would demand central banks stop pursuing policies that increase wealth and inequality in the first place, not instituting a tax that penalizes the very wealth central banks intentionally fabricated.

18. Naidu, 2017: 100. The problem is that falling interest rates show up as lower capital income, which normally would be reflected in a lower estimate of wealth. The capitalization method attempts to adjust for lower yields by weighting the remaining income more heavily. Kopczuk concludes "that the capitalization factors are difficult to estimate during periods of very low rates of return", which will be further complicated by even lower bond yields in 2020 due to the pandemic (Kopczuk, 2015: 61).

Furthermore, taxing assets whose prices are inflated by monetary policy means governments would profit from the actions of the central bank. While central banks might not adopt policies to inflate asset prices that boost government revenues from a wealth tax, it gives the appearance of acting in ways that benefit the government. The huge increase in government debts as a consequence of the 2020 pandemic gives governments the incentive to install or pressure Governors of central banks to behave in exactly this manner. This entails numerous risks: it gives governments an incentive to adopt dubious monetary policies that dampen long-term growth, it imperils the independence of the central bank, and it can lead to monetizing government debt that fuels inflation.

7 Fairness and social issues

Taxation does not address the fundamental sources of inequality

It is unlikely that taxation affects the main transmission mechanisms of inequality, especially between generations. A growing body of evidence shows that non-economic factors account for most inequality. Blum summarizes that “the gravest source of inequality of opportunity in our society is not economic but rather what is called cultural inheritance”. Culture includes formal education, a healthy diet, medical care, a nurturing environment, and even proper manners. Markovits estimates that just the additional educational investment received by the children of the rich is equivalent to an inheritance of between $5 and $10 million per child.[19] It is difficult if not impossible to neutralize this form of inheritance, because “nothing short of major changes in the institution of the family” will equalize opportunities for all children. Few democratic societies are willing to contemplate a massive intrusion of the state into the privacy of the family (Blum and Kalven, 1953: 88).

Even if family environments could be equalized, Clark argues that genetics plays a much greater role in intergenerational transmission of social outcomes. His research found that “the causal role that family income and parental education play in child outcomes is itself highly uncertain. Other elements of parental behaviour that cannot be compensated by public policy may the crucial ones. And these other parental behaviours may well be associated with the genetics of parents. It may be impossible to reduce the influence of inheritance in determining social outcomes through government actions” (Clark, 2014: 268). This is a sobering thought for any redistributionist.

Statistics Canada’s analysis shows a wide range of factors influence wealth inequality, few of which would be affected by a wealth tax. For example, it found that higher immigration raised wealth inequality, while the ageing population lowered it. Changes in family structure, such as more lone-parent families and unattached individuals, increased inequality, as did spending more time in school before entering the labour market full-time (Morisette, Zhang, and Drolet, 2002: 20). A wealth tax would have no major impact on any of these variables.

It is widely assumed that wealth inequality becomes self-reinforcing because the stock of wealth contributes to the increasingly unequal flow of capital income that invariably is skewed to the top. This assumption that wealth and income inequality are closely connected helps explain why calls for a wealth tax today are usually coupled with proposals to raise taxes on high incomes. However, the flow of income affects the accumulated stock of wealth slowly and with a lag. As noted in the introduction, one of the paradoxes of Piketty’s research is that increased income inequality has not been reflected in wealth inequality. People just entering the top 1% of incomes, for example, will take years to

19. Quoted in Milanovic, 2019: 61.

become a member of the top 1% of wealth. Many will not stay in the top 1% of incomes long enough to ever qualify for top wealth status given the rapid turnover of membership in this not-so-select group.

The fairness of wealth taxes

Public sentiment towards a wealth tax often seems influenced more by vague perceptions of fairness than by the issues discussed in previous sections surrounding growth, inequality, and tax revenues. So it is appropriate to address some of the issues related to fairness. Attitudes to wealth often depend on perceptions of whether the wealth was legitimately earned by providing the public with valuable products or garnered by underhanded schemes, favouritism from government, or monopoly.

In the public eye, fairness is more about playing by the rules than about sharing one's income or wealth that is earned in the marketplace (Sawhill, 2018: 98). Ruchir Sharma observes how "[i]f the entrepreneur is creating new products that benefit the consumer or building manufacturing plants and putting people to work, that form of wealth creation tends to be widely accepted". He continues, however, that inequality is bad for growth if the "population turns suspicious of the way wealth is being created" (Sharma, 2016: 99). When wealth is amassed by cozying up to politicians or selling inferior products in a protected market, inequality impedes growth "because it calls forth efforts to redistribute that themselves undercut growth" (Sharma, 2016: 126).

Robert Lampman in the early 1960s more broadly characterized wealth as being either "democratic" or "oligarchic" (Lampman, 1967: 80). Democratic wealth refers to wealth earned by the efforts of an individual, while oligarchic applies to inherited wealth or wealth protected by government regulations. This corresponds with Milanovic's blunt distinction between "good" and "bad" inequality. Good inequality is what is needed to "create incentives for people to study, work hard, or start risky entrepreneurial projects"; bad inequality is used to "preserve acquired positions" by resisting competition and change or encouraging nepotism (Milanovic, 2012: 12). Suspicions about whether wealth has been legitimately earned in our society lingers to this day. In a recent article in *Newsweek*, former US Labor Secretary Robert Reich claimed there were "basically only five ways to accumulate a billion dollars" and all of them seem illegal or undeserved (Reich, 2019). These included exploiting a monopoly, using insider information, buying off politicians, extorting big investors, and having rich parents.

The notion that most wealth today comes only from dubious or nefarious origins is patently absurd. If everyone became rich in the nefarious ways Reich describes, North America might indeed be ripe for class warfare. Instead, one reason the wealthiest billionaires today are lionized more than demonized is that most earned their money by providing useful services to billions of customers of Microsoft, Google, Oracle, Apple, Facebook, Amazon, Walmart, and LVMH.[20] The *Forbes* list of top billionaires shows most earned their wealth by investing shrewdly (Warren Buffett), developing some of

20. The dominance of technology among the wealthiest is not representative of the majority of high-income earners, who are corporate executives or financial professionals (Kwak, 2017: 82).

the basic technologies in our computer and information age (Bill Gates, Steve Ballmer, Larry Ellison, Mark Zuckerberg, Jeff Bezos, Larry Page, and Sergey Brin) or selling retail goods to the masses (the Walton family that controls Walmart and the Bernard Arnault family firm LVMH) (*Forbes*, 2020). Reinforcing this impression that they earned their wealth is that many of these people came from modest middle-class backgrounds (Bezos was the son of Cuban immigrants and, like Bill Gates and Steve Jobs, began by working out of a garage; Ellison was an orphan; Brin's parents lost their jobs after applying to emigrate from the USSR in 1979).

Kopczuk outlined how the wealthy in North America today "are less likely to come from wealth than in the past and more likely to have reached the top through earnings or entrepreneurial success" (Kopczuk, 2014: 22). The source of wealth for billionaires in North America and Europe differs from that of the wealthy in Eastern Europe, Africa, the Middle East, or even Asia, where many extracted their wealth from natural resources, privatization, or other connections to government (Milanovic, 2019: 162). Moreover, the source of wealth has shifted over time, with the preponderance of inherited wealth declining and self-made wealth increasing (Kopczuk, 2015: 64). For example, the ratio of inherited wealth to GDP fell from 20% early in the twentieth century in the United Kingdom to about 8%, while in the United States the share of inherited wealth in the wealth of billionaires fell from 50% in 1976 to just over 30% in 2014.[21] The greater share earned from labour income increases the public perception that wealth is "more deserved" as Milanovic put it (2019: 35). The shift in the source of wealth since the 1970s from inheritance to self-made wealth from successful business ventures makes wealth more acceptable to many ordinary people. The decline of the importance of inherited wealth itself encourages innovation (as seen in the tech industry) by upsetting the established order because "established wealth, especially inherited wealth, is by its nature hostile to the creative destruction that accompanies rapid economic growth. It is established wealth that is creatively destroyed" (DeLong, Boushey, and Steinbaum, 2017: 15).

The declining importance of inheritance and the success of people such as Gates, Jobs, and Bezos in rising from relatively modest circumstances to the stratosphere of wealth also helps explain why nearly half of all Americans believe they could become a member of the top ranks of income or wealth. Believing they can someday be wealthy dampens the public's will to tax wealth. Polls of American show "40% believe that they either are, or will become, part of the wealthiest 1%" (Sawhill, 2018: 96). This is not as far-fetched as it seems, given the degree of movement into and out of high incomes. For example, Statistics Canada found that over a five-year period, over 9% of Canadians were in the top 5% of incomes in at least one year; in Alberta, this percentage rises to over 16%. Extending the time period from having a high income at least once in a lifetime, and not just once in five years, would considerably raise the number of Canadians who can reasonably expect to receive a high income at least occasionally.

21. Data for the United Kingdom is from Atkinson (quoted in Milanovic, 2019: 244); US data is from Freund and Olive (quoted in Milanovic, 2019: 63).

However, an unsettling implication arises from the importance the public apparently attaches to whether wealth was earned or suspect (a result of rent-seeking or inheritance). It implies that redistribution through taxes is not motivated by reducing inequality but seeks to punish or reward people according to their innate "goodness", something that is very difficult to define or defend. As noted by the authors of *The Uneasy Case for a Progressive Income Tax*, this raises the question "whether the mass of mankind are not more concerned with who the 'unequals' are than with the fact of economic inequality" (Blum and Kalven, 1953: vi).

Arthur Goldhammer attributes much of the political anger in the wake of the Great Financial Crisis to a perceived unfairness that, while both the wealthy and middle and lower classes were hard hit during the 2008/09 recession, "the portfolios of the wealthy recovered quickly, whereas people who lost their homes lost them for good" (Goldhammer, 2017: 35). However, the data for Canada presented earlier in this paper shows that wealth rose more for lower-income quintiles than upper incomes. Nevertheless, the narrative that the wealthy profited more from government policies designed to fight the recession has taken root in Canada.

Branko Milanovic raises an interesting question about equality of opportunity and the fairness of inequality between nations: Why is the perceived negative impact of wealth on equality of opportunity within a nation regarded as problematic but the negative impact of inequality between nations is ignored? Being born in North America and not Africa confers more advantages to an individual than the difference between being born into the lower-class or the upper-class in North America. One answer he offers is that

> [w]ithin nation-states, many people regard the intergenerational transmission of family-acquired wealth as rather objectionable; but among nations, the intergenerational transmission of collectively acquired wealth is not considered an object of concern. That is interesting because individuals' links to their family are closer than their links to an entire community, and one might think that the transmission of family wealth across generations could be viewed as less objectionable than the transmission of societal wealth across generations of unrelated individuals. (Milanovic, 2019: 158)

Milanovic concludes that the major difference is that we can see the difference in wealth within our nation, but are oblivious to, or easily ignore, inequality between nations.

Another factor that affects the public's attitude to wealth inequality is the provision of public services and pensions. While Sweden has a high degree of wealth inequality, hardly anyone seems bothered by it since no one feels deprived by wealth accumulated by widely admired leaders of firms such as H&M, Volvo and Spotify (*Economist*, 2019).

Other social arguments advanced for a wealth tax can all be addressed more efficiently by other policies. Viewing wealth as the result of past injustices still does not mean a wealth tax is preferable to a tax on capital income. Reducing other negative effects of wealth is best accomplished by other means. Worried about monopoly power? Toughen anti-trust laws. Concerned about democracy? Reform the political system. Queasy about dynastic wealth being inherited? Use estate taxes (Kopczuk, 2019: 3).

A wealth tax creates other problems for fairness. The OECD points out that wealth taxes are unequal over the life cycle. The result is that young people who save and invest will end up paying more wealth tax than more profligate members of their age cohort.

Wealth taxes—a lesson in narrative economics or the Robin Hood Hoax

Much of the false narrative about rising inequality in Canada is imported directly from the United States. As indicated earlier, it resurfaced with the Occupy Wall Street movement's protest against taxpayer bailouts of rich Wall Street bankers, although there was no such government bailout of banks in Canada. While the trend of US wealth inequality is debatable, the narrative of widening inequality between the rich and everyone else has entered the public discourse here without adjustment for the facts about inequality in Canada. Transferring US concerns about increasing inequality of income and wealth to Canada, where inequality is declining, recalls what Lindhert termed the "Robin Hood Paradox", which is "that Robin Hood's redistributive army is missing when and where it is most needed" (Lindhert, 2000: 209). The opposite holds in Canada, where Robin Hood and his redistributive army has appeared in force but with no obvious cause to fight. One could call it the Robin Hood Hoax in Canada rather than the Robin Hood Paradox.

Given the paucity of evidence that the share of high-income or wealthy Canadians has increased over the past decade, why are so many commentaries and policy proposals based on a fallacious assumption? It may be a compelling example of what Robert Shiller of Princeton University calls "narrative economics". Shiller shared the 2013 Nobel Prize in Economics, and was perhaps the only known economist who diagnosed bubbles before they burst for tech stocks in 2001 and for US housing in 2007.

Shiller defines narrative economics as "the study of the viral spread of popular narratives that affect economic behaviour" (Shiller, 2019: 3). In his latest book, he argues that much public discourse is driven by narratives irrespective of facts. The power of narratives is they offer an explanation of how the economy works (a mystery to most people) and they lay out a course of action. Shiller cites some narratives that are relevant to the recent increase in the desire to tax wealth. Humans maintain duelling narratives about spending, at some periods preaching frugality and a modest lifestyle and at other times encouraging conspicuous consumption (Shiller, 2019: 136). Apparently, after the Great Financial Crisis we are living through a period that discourages ostentatious displays of wealth, while the opposite occurred during the booms of the 1920s or the late 1980s and 1990s. During extended slumps, poverty can even become chic; in the 1930s, for example, people brazenly boasted "I cannot afford it" because this implied having lost lots of money (past wealth became more fashionable that current wealth because it showed you had ability but were robbed by circumstances beyond your control) (Shiller, 2019: 143). Social media encouraged the importation of narratives from the United States without the correction for Canada's different facts that more traditional media may have made in the past.

Conclusion

Nearly a century ago, Henry Simons wrote one of the first books advocating the increased taxation of the rich. He argued that "the effect of a higher degree of progression in taxation upon the distribution of income is certain; the effect upon production, problematical. One is a matter of arithmetic; the other, largely of social psychology" (Simons, 1967: 129). Today, a century of accumulated evidence and experience supports exactly the opposite conclusion: higher taxes on upper incomes and wealth dampens production, without any certainty they raise tax revenues or reduce inequality. Both results are a matter of economics, not of arithmetic or social psychology. The behavioural response of the wealthy confounds Simon's "arithmetic" prediction that they would meekly assent to turning over ever larger shares of their money to governments. Meanwhile, there is now substantial evidence that taxes, especially taxes on high earners and the wealthy, lower production and incomes. This can no longer be dismissed as a matter of "social psychology" but is now an established finding of years of economic research.

Almost all countries that imposed a wealth tax found negative side effects for economic growth without significant revenue or redistributive benefits. This is why most of these countries have abandoned wealth taxes. Canada should learn from their experience and avoid implementing this misguided tax policy. A wealth tax would be unnecessarily injurious since inequality is not widening in Canada. At a time when we need to encourage growth after the deepest downturn since the 1930s, it would send the wrong signal to investors here and abroad about our priorities. It is time to end the divisive debate about redistribution and focus on restoring economic growth.

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