

We need to revisit the idea of Pigou wealth tax

FT ft.com/content/fe3abaa6-a5ab-11ea-a27c-b8aa85e36b7e

Ian Kumeakawa, *The Financial Times*, June 7, 2020



British economist AC Pigou endorsed a one-time levy to cover the debts of the first world war © Alamy

The writer is author of 'The First Serious Optimist: AC Pigou and the Birth of Welfare Economics'

A hundred years ago, in the midst of an unprecedented crisis, the British economist AC Pigou endorsed a wealth tax. Writing during the first world war, Pigou called for a huge, one-time levy to pay for a skyrocketing wartime bill.

Today, in the face of trillions of dollars of government spending to confront Covid-19 — and urgent calls to address racial inequities — we would do well to revisit the idea of such a tax.

In Pigou's time, as today, governments were spending almost inconceivable amounts of money on a national disaster. Britain's budget more than tripled in the first three years of first world war. Then as now, a wealth tax was a favoured proposal of the left. Then as now, such a tax, which was never implemented, would have departed sharply from the established wisdom and norms of public finance.

For Pigou — the first economist to study environmental costs and one of the first to analyse inequality — the reasons for implementing a special levy were more than just economic. They were about fairness and equity.

Pigou saw the one-time tax as analogous to a draft. “Young men,” he wrote in 1916, were being asked to sacrifice “not equal fractions of their wellbeing, but the whole of what they possess”. If this were “the right principle to apply to the lives of men”, Pigou contended, it would also be “the right principle to apply to their money”.

This led Pigou to float radical measures: in one form, a 25 per cent levy on all wealth, exempting the poor.

Today, there is no draft, but many people have still been asked to risk their lives. “Essential” services in the US are largely staffed by often underpaid blue-collar workers. The 1.5m orderlies and nursing assistants employed by US hospitals take home a median salary of less than \$30,000 per year. America’s 3.2m personal care aides earn just over \$24,000 annually.

Both the virus and its attendant economic dislocation have disproportionately affected already disadvantaged communities, particularly those of colour. Even before Covid-19, the median wealth of white US families was almost ten times that of black families. A wealth tax would mitigate that disparity and begin to heed the urgent calls for racial equality in the wake of the brutal police killing of George Floyd.

Meanwhile, the costs of Covid-19 are multiple, variegated and widespread. Some people, however, have had to sacrifice more than others. For millions living in precarious economic situations, the crisis will be — if it is not already — a life-changing disaster. Social distancing is a very different experience in affluent suburbs than in crowded cities, where many of the poor live.

Yet, at the same time, leaders have expected and even depended upon the idea that the poorest act with an ethic of public spiritedness. Doing so often means forgoing income and surrendering livelihoods. The personal sacrifices required to halt the spread of the coronavirus are not limited to risk of exposure and emotional duress. They are also economic.

A one-time levy, distinct from an continued wealth tax, takes the ideas of public spiritedness and communal solidarity seriously. It offers a way for the very affluent to share more equitably in the burden of an exceptional disaster.

Those who would pay the levy would not have been laid off from low-wage jobs. They would not have faced eviction. They would not have been forced to take public transit. They would not have been obliged through necessity to work without personal protective equipment. Yet as they receive healthcare, order groceries, takeout and receive mail, they continue to depend on the work of those who have.

As Pigou put it more than a century ago, “to impose such a levy is not merely not unfair, but considerations of fairness directly demand it”.

Such logic resonates even more strongly today than in Pigou's time, when levies were debated but never adopted. Economic inequality in western democracies has skyrocketed over the past three decades. In the US, the wealthiest 1 per cent — families with assets of over \$10m — own more than a third of total wealth.

Pigou proposed a 25 per cent levy on the holdings of the well off. Today, even a 5 per cent levy on the US's richest 1 per cent could raise \$1tn. An additional 5 per cent levy on the wealthiest 0.1 per cent could furnish half a trillion more.

Such measures would cover half of the US's \$2.8tn pandemic fiscal stimulus so far. They would help distribute the costs of the ongoing disaster more equitably. They might also help move the US to a more equitable future.

Crises — whether wars or the current pandemic — are transformative events. Their legacies cut deep and last long. Our response to Covid-19 should prioritise fairness as well as safety.

The writer is author of 'The First Serious Optimist: AC Pigou and the Birth of Welfare Economics'