

Could higher taxes for billionaires help counter income equality?

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Ian Simmons, co-founder and principal of Blue Haven Initiative, poses at his office in Cambridge, Massachusetts, October 18, 2019. Photo by: Michael Dwyer/AP Photo

WASHINGTON, D.C. — Molly Munger saw the fancy vacation homes in Newport Beach, California, sitting empty on a beautiful Memorial Day weekend once again. That's when she decided it was time for the U.S. to consider taxing wealth.

Munger, whose father is a billionaire, first began to notice many of her neighbors' beach houses were dark a few years ago. She knew why: The owners now controlled enough money to holiday at one of their several other luxury homes. It didn't sit right, she said.

"It's just too much to watch that happen at the top and see what is happening at the bottom," said Munger, a California lawyer whose father, Charlie, built his fortune as vice chairman of billionaire Warren Buffett's company Berkshire Hathaway. "Isn't it a waste when beautiful homes on the beach are empty for most of the summer?"

Munger is now among a handful of billionaires and multimillionaires pushing for the government to raise their taxes and siphon away some of their holdings. As Democratic presidential candidates

debate a new tax on wealth rather than on incomes, this group of uber-rich people is urging them on.

"I believe in free markets. I'm the daughter of a capitalist. But not Darwin-like," Munger said, referring to scientist Charles Darwin's "survival of the fittest" theory.

To Be Taxed On Money Owned, Not Earned

The chief argument from these businesspeople is that the government could spend their money more effectively than they could on their own. It would improve schools, protect the environment or make other important improvements. It challenges the belief among many politicians and economists that lower taxes on corporations and investment incomes are the most efficient way to spread wealth.

The idea also is a direct challenge to the reputed billionaire in the White House, President Donald Trump. He once backed a wealth tax but in 2017 enacted a dramatic tax cut that favored the rich.

Twenty people signed a letter this summer asking to be taxed more. The group included Facebook co-founder Chris Hughes and heiress Abigail Disney. Bill Gates, the world's second-richest person, didn't sign it but has since said he "wouldn't be against a wealth tax" if a person's wealth exceeds \$100 billion.

Democrats have long pushed for higher taxes on the top income levels. However, the current debate goes further — whether to impose annual taxes on what people own, not just on what they earn.

Massachusetts Senator and Democratic presidential candidate Elizabeth Warren has endorsed a wealth tax on holdings above \$50 million that could potentially raise up to \$2.75 trillion over 10 years. Vermont Senator Bernie Sanders' tax would start at \$32 million. At last week's presidential debate, South Bend, Indiana, Mayor Pete Buttigieg, Minnesota Senator Amy Klobuchar and former Texas congressman Beto O'Rourke, expressed openness to imposing a wealth tax. Meanwhile, businessman Tom Steyer argued for higher taxes on his \$1.6 billion fortune.

Biden Is Not On Board

There were some detractors among the candidates. Former Vice President Joe Biden criticized the plans of Warren and Sanders as "demonizing wealth" and argued instead for focusing on income taxes and raising rates charged on earnings from investments.

Biden's view is backed by many in the economic establishment, even those who say they support using taxes to counter income inequality.

Larry Summers is the former U.S. treasury secretary and Harvard University president. He is concerned the richest Americans would find ways to avoid a wealth tax, making it unlikely to break the hold on politics by powerful companies and rich donors.

Still, the economists who developed the idea dispute the notion that tax avoidance will always happen. Wealthier Americans paid taxes in the past when tax avoidance was viewed as freeloading, said Emmanuel Saez, an economist at the University of California at Berkeley.

"The tax system reflects the values of society," he said.

The top 1 percent of Americans hold nearly 40 percent of the country's wealth, while the bottom 50 percent of Americans basically control none of it, according to the World Inequality Database. Saez helped develop the information in this database. Many of the wealthiest of that top 1 percent pay lower rates than most Americans because of how their income gets taxed, according to Saez.

Hoping To Increase Stability Of Economy

Ian Simmons is among the well-off declaring they're ready to pay more.

Simmons runs an investment fund called the Blue Haven Initiative with his wife, Liesel Pritzker Simmons. The couple recruited other wealthy families to support a wealth tax in June.

Ian Simmons first learned about a wealth tax when he was a student at the Harvard economics class taught by Martin Feldstein, who was Republican President Ronald Reagan's economic adviser.

"This is really a conservative position about increasing the stability of the economy in the long term and having an efficient source of taxation," Simmons said.

Simmons' family money came in part from mail-order retailer Montgomery Ward, an innovation aided by the U.S. Postal Service. The Hyatt hotel chain that helped create his wife's family fortune was aided by the government's construction of interstate highways.

Obama's Proposal Was Not Successful

That's part of the reason he supports a wealth tax — his family's fortune stems partly from government programs.

Rich people have had limited success as advocates for tax hikes. In 2011, billionaire Buffett's declaration that he paid a lower tax rate than his employees spawned President Barack Obama's proposal to raise rates on people making more than \$1 million. The so-called "Buffett rule" fizzled in Congress.

In 1999, when Trump was mulling a presidential bid, he proposed a one-time tax of 14.25 percent on fortunes above \$10 million. He said at the time it could eliminate the national debt.

"It's a win-win for the American people," Trump said then. When recently asked if the president still supports the idea, the White House declined to comment.