

# Wealth Taxation and Wealth Accumulation: Theory and Evidence from Denmark

Jakobsen, Jakobsen, Kleven and Zucman QJE 2020

Discussion by Joel Kariel

# Wealth Tax: A Primer

- Hot topic in U.S. Democratic Primaries
- Annual tax on net wealth above a threshold
- Warren: annual 2% marginal tax on wealth above \$50m, 6% above \$1bn (approx. 75,000 hhds)
- Aims: (1) reduce inequality [U.S. Inequality](#) and (2) fund public services
- Mechanisms: (1) mechanical and (2) behavioural

## Research Question

How does a wealth tax affect behaviour, and thus inequality?

Jakobsen et al. 2020

How does a 1% **reduction** in wealth tax for those **above 98<sup>th</sup> percentile** in Denmark in 1989 affect wealth accumulation?

# Danish Data

- From 1980, wealth data was reported by third-parties, not censored/top-coded, includes financial and non-financial assets and debts at prevailing market prices
- Wealth inequality rose from mid-1980s to early 1990s, but significantly lower level than the U.S. [Inequality Trends](#)

# Methodology

- **DD:**
  1. Rise in exemption threshold for couples relative to singles
  2. Ceiling on total tax liability of 78% of taxable income - compare effect on wealth tax cut on bounded vs. unbounded hhds

$$\log W_{it} = \sum_{j \neq 1988} \beta_j \cdot \text{Year}_{j=t} \cdot \text{Treat}_{it} + \gamma_i + \eta_t + v_{it}$$

- **Structural:** life cycle model with utility of residual wealth, no uncertainty. Calibrate to fit average wealth profiles of wealthy subgroups from aged 60 - 90

# Results

- **DD (8 years):** Plots
  1. *Couples:* TOT estimate 18% rise in wealth, elasticity 0.2
  2. *Ceiling:* TOT estimate 30% rise in wealth, elasticity 0.4
- **Structural (25 years):** Plots
  1. *Couples:* Stock of wealth 30% higher, elasticity 0.77
  2. *Ceiling:* Stock of wealth 65% higher, elasticity 1.15

# Comments

1. Asymmetry of cut vs. introduction
2. Why don't they look at effect on earnings? (Ring 2019)
3. Evidence on already-wealthy, not new entrepreneurs
4. Doesn't speak to potential migration response
5. Context: 30 years ago, different country, lower inequality
6. What about substitution towards self-reported wealth?
7. Partial equilibrium - what about effect on wages/prices?

# In Favour of a Wealth Tax

1. Elasticity seems reasonably high
2. Third-party reporting and wide wealth base is crucial
3. Lack of bunching suggests limited evasion/avoidance to tax



# U.S. Wealth Inequality

WEALTH INEQUALITY IN THE UNITED STATES SINCE 1913 521

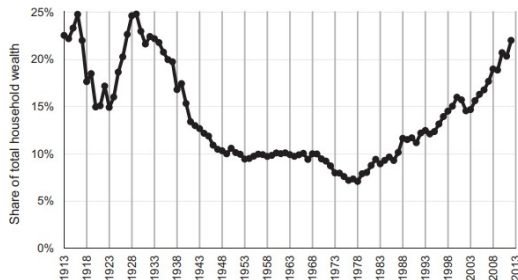


FIGURE I

Top 0.1% Wealth Share in the United States, 1913–2012

The figure plots the share of total household wealth owned by the richest .1% of families in the United States from 1913 to 2012. The unit is the family (either a single person aged 20 or above or a married couple, in both cases with children dependents if any). The top .1% is defined relative to the total number of families in the population. In 2012, the top .1% included about 160,000 families with a net wealth above \$20.6 million. Source: Online Appendix Table B1.

Figure 1: Saez and Zucman 2016 [Back](#)

# Danish Wealth Inequality



Figure 2: Jakobsen et al. 2020 [Back](#)

# Danish Wealth Inequality

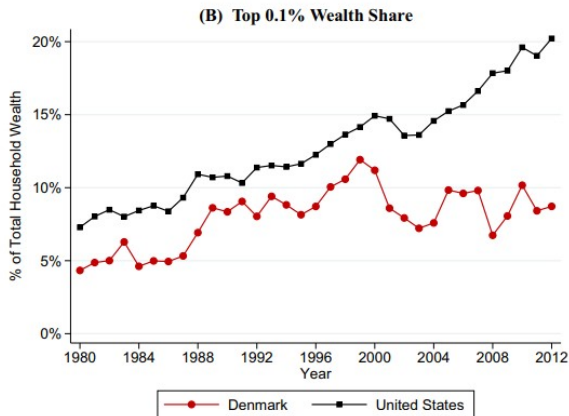


Figure 3: Jakobsen et al. 2020 [Back](#)

# Diff-in-diff for Couples

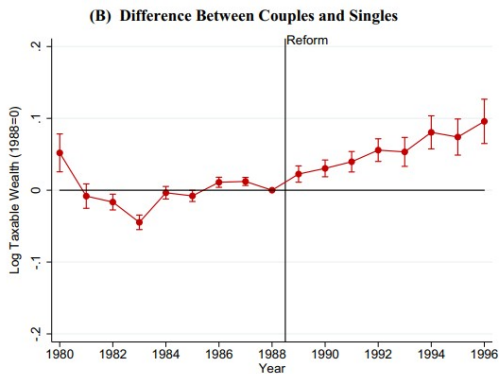


FIGURE IV

Difference-in-Differences Comparing Couples and Singles within Exempted Range

Figure 4: Jakobsen et al. 2020

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# Diff-in-diff for Ceiling

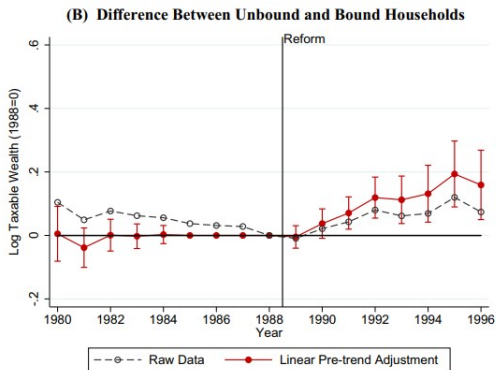


FIGURE VI

Difference-in-Differences Comparing Households Unbound and Bound by Tax Ceiling

Figure 5: Jakobsen et al. 2020

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# Long-run effect for Couples

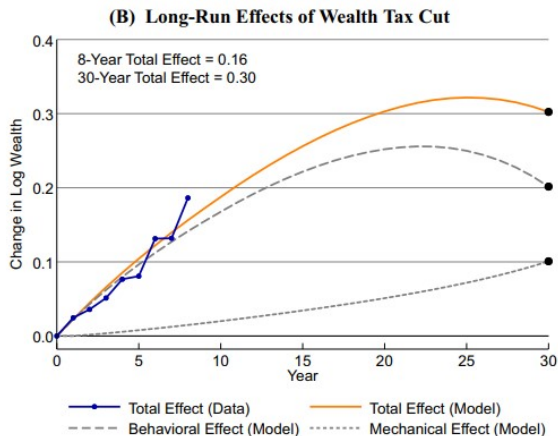


Figure 6: Jakobsen et al. 2020 [Back](#)

# Long-run effect for Ceiling

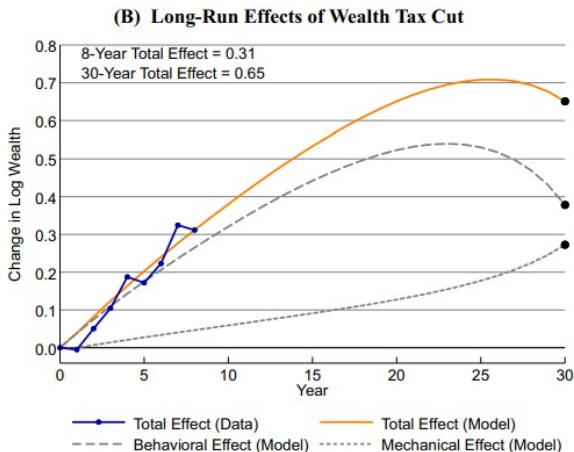


Figure 7: Jakobsen et al. 2020 [Back](#)