International Monetary Fund Rolls Out Dangerous "Wealth Tax" Proposal

The populist notion of taxing the rich once again turned up in the International Monetary Fund's *Fiscal Monitor Report* released in October, but scarcely anyone noticed. In an arcane chart-laden 107-page-long report that was competing at the time with the government shutdown, the failing rollout of ObamaCare, and other concerns, crises, and disasters, why should they?

Here's why. On page 49, the authors said, "The sharp deterioration of the public finances in many countries has revived interest in a 'capital levy' — a one-time tax on private wealth — as an exceptional measure to restore debt sustainability."

Let's be clear: That tax would apply to all private wealth on the planet. And it wouldn't balance budgets but would only bring them down to a slightly more manageable level so that government borrowing and spending could continue without interruption. The levy would have to be implemented rapidly, before the wealthy could react and move their assets, or themselves, out of harm's way: "The appeal is that such a tax, if it is implemented before avoidance is possible … [will not] distort behavior."

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If such a tax were delayed in implementation, governments that had borrowed and spent too much might not be able to confiscate enough money to escape short-term financial trouble and would have to default on their promises or inflate them away:

> The conditions for success are strong, but also need to be weighed against the risks of the alternatives, which include repudiating public debt or inflating it away (these, in turn, are a particular form of wealth tax — on bondholders).

This is where the IMF's interests really lie: Those bondholders, including central banks, which have allowed governments to exceed their borrowing capacity and are now facing the threat of severe haircuts through either default or inflation.

Just how much would the IMF's "capital levy" be? Say the authors:

> The tax rates needed to bring down public debt to precrisis levels are sizable: reducing debt ratios to end-2007 levels would require … a tax rate of about 10 percent on households with positive net worth.

After reading the entire 107 pages, *Forbes'* columnist Bill Frezza was livid:

> [The IMF proposal] means that all households with positive net worth — everyone with retirement savings or home equity — would have their assets plundered.…

> It would merely "restore debt sustainability," allowing free-spending sovereigns to keep tapping the bond markets until the next crisis comes along.

Romain Hatchuel, the managing partner of asset-manager Square Advisors, saw the same dangers but noted that the tax rate on everyone owning anything in the United States would be much higher than just 10 percent:

> As the IMF calculates, the … revenue-maximizing [tax] rate … is around 60 percent, way above existing levels.
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> For the U.S., it is [between] 56% and 71% — far more than the current 45% paid … by those in the top tax bracket…
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> From New York to London … powerful economic players are deciding that with an ever-deteriorating global fiscal outlook, conventional levels and methods of taxation will no longer suffice. That makes weapons of mass wealth destruction — such as the IMF's one-off capital levy… — likelier by the day.

This is going to be a tough sell, which is why it must be mandated through international agreements. Back in 1999, Donald Trump, the perennial presidential candidate, unleashed his own "net worth tax" proposal, a 14.25 percent tax touted by him to be the complete solution to America's fiscal problems. At the time he estimated it would raise enough money to pay off the national debt, which was then less than $6 trillion. (It's now at $17.2 trillion, nearly three times higher.) That would free up $200 billion in interest payments that the U.S. government paid annually, which Trump said he would, as president, use to shore up Social Security, giving the rest back to taxpayers. At the same time, Trump announced he was forming a committee to explore whether he should seek the presidential nomination from the Reform Party. His campaign sputtered and he dropped out a few months later.

When a wealth tax was installed in France, the wealthy moved away to more tax-friendly havens, such as Belgium. Denis Payre, a French citizen at the time, had built and sold a high-tech company for $110 million in stock, and decided to retire. French authorities imposed its 2.2 percent wealth tax on stock that he owned but couldn't sell owing to regulations. When he got a bill from the French government for $2.5 million, he moved to Belgium. Said Payre: "They were asking me to pay taxes on money I didn't have. I had no choice but to leave the country." Payre explained, "France is penalizing success in a big way. The loss in income for the government is the smallest part. The big issue is the loss of all that creative energy this country is dying for."

From its report the IMF admits that previous attempts to install wealth taxes have largely failed because the wealthy could move, but the IMF hopes to close any escape hatches via mutual governmental cooperation:

> In principle, taxes on wealth … offer significant revenue potential at relatively low efficiency costs.
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> Their past performance is far from encouraging, but this could change as … stepped up international cooperation … reduces evasion opportunities….
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> [Such schemes must] address more fundamental aspects … and find better ways to realize mutual gains from closer cooperation in tax matters.

That's why it's called the "International Monetary Fund."

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