PENN WHARTON
UNIVERSITY of PENNSYLVANIA
Budget Model

Summary: Penn Wharton Budget Model (PWBM) projects that Senator Sanders' wealth tax proposal would raise between $2.8 trillion (including macroeconomic effects) and $3.3 trillion (not including macroeconomic effects) in additional revenue in the 10-year window 2021 - 2030 while reducing GDP in 2050 by 1.1 percent.

Key Points

- Senator Bernie Sanders has proposed a graduated wealth tax starting at 1 percent of net worth above $32 million and climbing to 8 percent on net worth above $10 billion, which his presidential campaign has reported as raising $4.35 trillion over 10 years.

- PWBM estimates that the proposal would raise about $3.3 trillion over fiscal years 2021-2030, not including macroeconomic effects. Including macroeconomic effects, PWBM estimates that the proposal would raise about $2.8 trillion over the same period.

- PWBM projects that the proposal would reduce GDP by 1.1 percent in 2050. Average hourly wages in the economy in 2050, including wages earned by households not directly subject to the wealth tax, would fall by 1.0 percent due to the reduction in private capital formation.

Senator Bernie Sanders' Wealth Tax: Budgetary and Economic Effects

Introduction

This brief analyzes the budgetary and economic effects of Senator Sanders' proposal to directly tax wealth of high-net worth families. Our previous analysis examined the wealth tax plan of Senator Elizabeth Warren, where we also reviewed the international experience with wealth taxation and our projection methods.[1]

The details of Senator Sanders' plan include: a 1 percent tax on married couples' net worth above $32 million, 2 percent tax on net worth from $50 to $250 million, 3 percent tax from $250 to $500 million, 4 percent tax from $500 million to $1 billion, 5 percent tax from $1 to $2.5 billion, 6 percent tax from $2.5 to $5 billion, 7 percent from $5 to $10 billion, and 8 percent tax on wealth over $10 billion. For unmarried individuals, the net worth cutoffs for these

brackets are halved. The Sanders campaign estimates that this proposal would raise $4.35 trillion in revenue over ten years.

Projected Federal Tax Revenue

Table 1 presents the year-by-year revenue estimates during the budget window. On a conventional scoring basis (without macroeconomic effects), we project that Senator Sanders' proposed wealth tax would raise about $3.3 trillion over fiscal years 2021-2030, about $1 trillion less than estimated by the Sanders campaign. This projection includes the effects of tax avoidance and evasion, which both directly lower the amount of revenue raised. Including macroeconomic effects, a reduction in economic activity reduces the size of the federal tax base, lowering our projection to $2.8 trillion over the 10-year budget window.

Table 1. Conventional and Dynamic Revenue Estimates, Fiscal Years 2021-2030

Billions of Dollars, Change from Current-Law Baseline

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Estimate type	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Budget window
Conventional	259	326	315	306	298	314	338	365	396	428	3,345
Dynamic	248	303	282	263	248	257	272	291	311	334	2,809

Projected Economic Effects

The Sanders campaign does not indicate specific plans for how the wealth tax revenue would be spent. We therefore apply the standard long-standing scoring convention used by the CBO and PWBM of applying the additional revenue toward deficit reduction.[2]

Table 2 presents the macroeconomic projections. On one hand, reducing federal deficits increases investment, leading to greater capital accumulation and, therefore, increasing GDP. On the other hand, the wealth tax discourages wealthier households from accumulating as many assets. This disincentive to save outweighs the effects of deficit reduction, and the net effect is a 2.9 percent decline in the total capital stock in 2050. Workers become less productive as a result of the decline in capital, leading to a 1 percent decline in wages by 2050. National output, as measured by the nation's Gross Domestic Product (GDP), falls by 1.1 percent in 2050.

Table 2. Economic Effects of a Wealth Tax

Percent Change from Baseline

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Year	GDP	Capital stock	Average Hourly Wage	Hours Worked
2030	-0.8%	-1.9%	-0.6%	0.1%
2040	-1.0%	-2.6%	-0.8%	0.2%
2050	-1.1%	-2.9%	-1.0%	0.3%

Note: Consistent with empirical evidence, the projections above assume that the U.S. economy is 40 percent open and 60 percent closed. Specifically, 40 percent of new government debt is purchased by foreigners.

John Ricco and Victoria Osorio produced this analysis under the direction of Efraim Berkovich, Richard Prisinzano and Kent Smetters. Kody Carmody contributed to the report. Calculations are based on PWBM's model that is developed and maintained by PWBM staff.

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1. This analysis uses the same base methods and assumptions as the PWBM score of Senator Warren's wealth tax, discussed in detail in the Technical Appendix to that report. Section D of that appendix directly compares the PWBM methods and assumptions to those used by Emmanuel Saez and Gabriel Zucman to prepare revenue estimates for both the Warren and Sanders campaigns. ↩

2. Our analysis of Sen. Warren's wealth tax estimates economic effects under additional alternative spending scenarios, but for this analysis we use only the standard approach. ↩