LAFFER ASSOCIATES
Supply-Side Investment Research
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10-yr T-Note: 4.72%	DJIA: 53,569.44	NASDAQ: 26,541.35	S&P 500: 7,730.99	S&P 500 Undervalued: -14.6%

WEALTH TAX DEBATE REDUX: LAFFER VS. ZUCMAN

By Brian Domitrovic Ph.D.

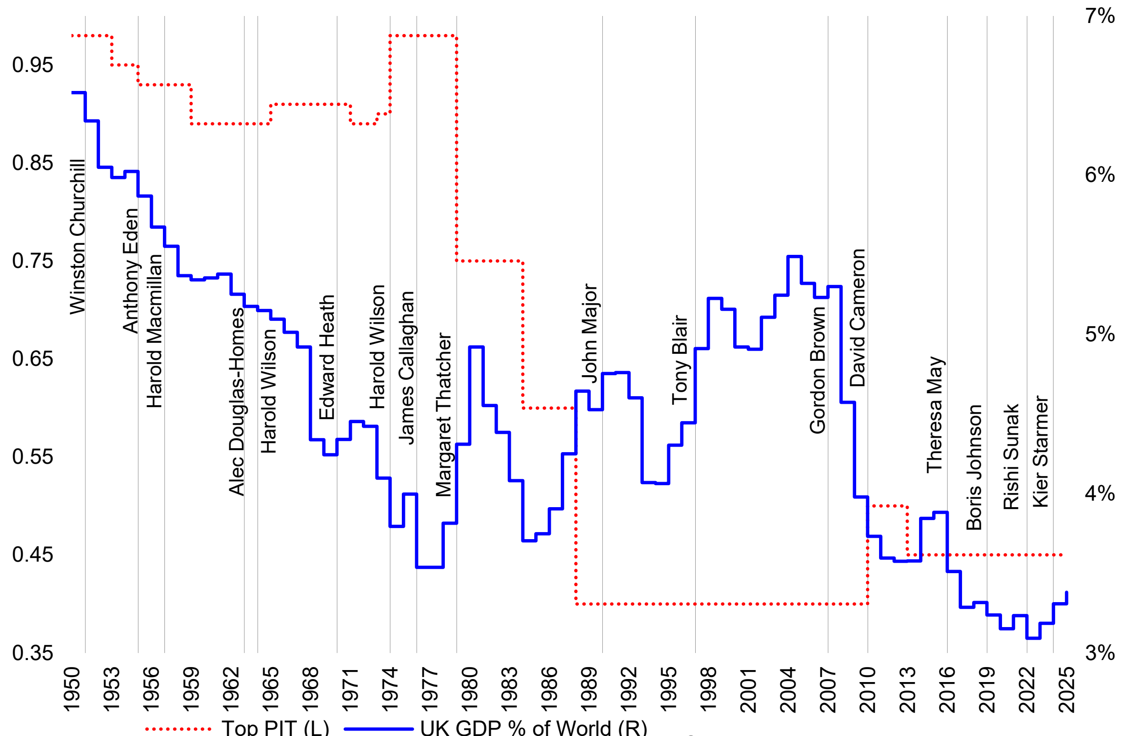
Last week on journalist Matt Frei's podcast on Britain's most notably left-leaning ITV Channel 4 News, Dr. Arthur Laffer debated economist Gabriel Zucman of the Paris School of Economics. Zucman is one of the principal advocates of and activists for a wealth tax. He has proposed a Europe-wide 2-percent wealth tax on any European worth at least 100 million euros. *Le Monde* reports that "'the Zucman tax' has electrified debate in France." Zucman is a former collaborator with Emmanuel Saez, who himself is a chief architect of the one-time 5-percent tax on California billionaires on the ballot in that state this November. Laffer debated Saez on this issue in May at Saez's home base, the University of California at Berkeley (see attached paper and YouTube video). The Laffer/Zucman podcast with Matt Frei was more in the same vein: Laffer and Zucman duked it out on the economics of a wealth tax:[1] Not on the facts of wealth distribution, about which they both completely agreed. Theirs was a debate on what, if anything, should or could be done. At its core, Laffer proposed a U.K. pro-growth, low rate tax with a 30% top tax rate on a comprehensive tax base, with most of the deductions, exemptions, credits, omissions, and write-offs removed, while Zucman stuck to his add-on punitive wealth tax.

That the Laffer-Zucman debate took place on a British platform—that of Matt Frei's podcast—was expressive of the exhaustion that the British public is feeling with respect to policy "solutions" that have been tried in that country of late. Since 2008, British

[1] "Tax the Rich: Should Britain bring in a wealth tax?," https://www.youtube.com/watch?v=1jDN7h7-S5E, Aug. 20. 2026; Romain Imbach, Julien Lemaignen, and Lara Pino Lerro, "'Zucman tax': What the proposed wealth tax would mean for France," https://www.lemonde.fr/en/les-decodeurs/article/2025/09/23/zucman-tax-what-the-proposed-wealth-tax-would-mean-for-france_6745653_8.html?srsltid=AfmBOooIPskjvfPXkPFhKaysn8fHT8YYsZ3fDnY1eKmMwNpv0RLWvM5m, Sept. 23, 2025; "Dr. Arthur Laffer vs. Dr. Emmanuel Saez: A Debate on California's Wealth Tax on Billionaires," https://www.youtube.com/watch?v=tLQFHYqkVtY, May 5, 2026.

growth has been simply anemic. Real GDP growth has barely cleared one percent per annum since 2008. The British appear to be receptive to the wealth tax idea because everything else that has been tried of late has produced nothing but more of the same—economic mediocrity. Over the long term, British growth has been on a remorseless course downward. The only respite was the good growth of the Maragret Thatcher and Tony Blair years:

UK Share of World GDP Against Top U.K. Tax Rate
(annually, 1950 through 2025)



Sources: World Bank; Historical National Accounts

Beyond Britain, the wealth tax has emerged as the favorite policy option of the resurgent hard left in the United States and across the world. In Europe, Zucman's 2-percent wealth tax is being considered in the national assembly. In Britain, the party in power, Labour, with its new prime minister Andrew Burnham, is giving ear to such a proposal. Zucman hopes to take the 2-percent wealth tax continent-wide, if not globally. The aspirational goal of wealth tax advocates is to make a wealth tax unavoidable. No matter where you live in the world, the vision is, the super-rich will face a wealth tax. You cannot run, nor can you hide. For Dr. Laffer, the aspirational goal is to make governments compete with each other with domestic policies in order to attract prosperity and economic growth. He believes that nowhere is competition more necessary than among the governments of the world. To Laffer, when governments cooperate, coordinate, and collude, it is always at the expense and weal of the people. In the United States, Zucman has advised Elizabeth Warren, who has also proposed a 2-percent wealth tax on all personal assets over $50 million.

The basis of the Laffer-Zucman debate, its premise, was a point of clear agreement. Both economists affirmed that the very rich are not paying their fair share in taxes. Enough is not enough already! Dr. Laffer however believes that governments here and abroad don't need to spend and tax more. His argument is that economic growth is the only long-term answer, and an additional wealth tax would stifle growth, not increase it.

Both Zucman and Laffer cited the example of Warren Buffett. Buffett announced to the world in 2011, via a *New York Times* piece, that he paid a trifle in taxes, merely some $7 million in federal income taxes the year before, when he was arguably the richest person in the United States and worth $50 billion. Have 50, pay .00014 of that in taxes was the Buffet way in 2010. The lion's share of the population pays taxes far more as a percentage of personal net worth than such a teeny fraction. Hence the problem—the rich are not paying their fair share in taxes, in terms of both absolute amounts and in comparison to everyone else. But knowing that there is a problem is not enough. Selecting the correct policy to address the problem without destroying the economy is the point of contention between Laffer and Zucman.

While the diagnosis of the problem started with a key point of agreement, the solution to the problem brought wild disagreement. Zucman's contention is that income taxes have proven good at taxing the non-rich and ineffective at taxing the super-rich. Therefore, a further tax, a wealth tax, is necessary, to get the rich to pay, as a proportion of their wealth, about as much as everyone else. Zucman, while contending that his wealth tax would raise lots of tax revenue, made no mention of using those proceeds to reduce other taxes but instead only proposed increased social spending. If you tax people who work, and pay people who do not work, one cannot be surprised if less people work.

"The proper way to tax the super-rich has to involve some kind of tax based on wealth," as Zucman put it. If Buffett of 2010 had to pay the Zucman tax, he would pay 2 percent of $50 billion (or $1 billion) every year that his wealth stayed at that level. His taxes would include income taxes and the wealth tax, and according to Zucman, Buffett's tax bill would go up from $.007 billion to $1.007 billion. Zucman assumes that Buffett's wealth would not change in response to the wealth tax, that Buffett's tax strategy would not change in response to the wealth tax, and that the economy would chug along at the same pace without changing one iota in response to the wealth tax. But, of course, none of that would happen if there really were a wealth tax. What this absence of consideration means is that there is a bias to over-estimating tax revenue collections from a wealth tax that wealth-tax proponents are projecting.

Here is where Laffer struck back. If the income tax is failing to tax the super-rich, there must be something terribly wrong with how politicians have designed it. Starting from zero, there is only one way to get super rich. This is to have lots of income accumulated over long periods of time, accumulated income growing at compound rates that stacks up to amount to super-wealth. If the rich got rich without paying their fair share of the income tax, the problem is that the income tax is poorly designed. Laffer gave a grave warning that the wealth tax is a terrible idea on precisely these grounds. If the income tax has proven itself to have a terrible flaw—it is not taxing the largest incomes—then adding a completely untested wealth tax would be to indulge the problem by adding massive new problems instead of solving the problem. The income tax should be reformed and corrected. It should not be let to sit in its insufficiency while adding a new toxic wealth tax, on top of it. If the income tax has failed in an important regard, why would we expect a wealth tax not to add to the failure? Of course it would. When tax codes are bad, do not ever expect anyone, rich or poor, not to avail themselves of all legal advantages. Altruism is not in the taxpayer's DNA. Fix the tax code, Laffer argues, as opposed to demonizing the affluent.

Starting in the early 1930's on through the very early 1980's, the highest income tax rate on the rich was never lower than 63% and peaked, if you can believe it, at 94%. In such an environment, these sky-high tax rates led to a whole host of tax exemptions, deductions, credits, exclusions and omissions being adopted into the federal tax code to counter-act oppressive tax rates. In such a dysfunctional system, everything went wrong that could go wrong.

From 1981 on, federal tax reform reducing earned income tax rates, capital gains tax rates, unearned income (dividends and interest) tax rates, death taxes and corporate taxes were the focal point for growth. What remained comparatively unaddressed (outside of the grand tax reform of 1986 that tax increases in the 1990s neutralized) was a hodge podge of complicated, confusing and damaging loopholes. The situation begged for resolution: get rid of the loopholes and continue to lower tax rates. Do not go backwards and add new taxes on the rich. This is the essence of the Laffer/ Zucman debate and the Laffer / Saez debate.

Laffer made a point that has been respected across the field of economics for years. This point is that the income tax base should be broadened to tax all income, and the tax rate should be lowered in proportion so that revenue stays the same on static terms. Broad tax base, low tax rate—the standard view in economics is that this is the most efficient income tax system. It is not the one we have now, in that deductions and exclusions particularly for the rich are legion. The tax base is not broad, and therefore tax rates are higher than they could or should be. Solve this problem directly—broaden the base, lower (and flatten) the rate. You will get the economic growth that has been so elusive for decades now. You will have plenty of revenues for government to carry out its legitimate role in the economy. And most of all people will be much happier than they are now.

The super-rich avoid income taxes chiefly in three ways. First, they accumulate unrealized capital gains (which is not taxed) —i.e., their businesses grow in value as they hold and do not sell their shares. Second, to avoid paying income taxes they give appreciated stock to charitable organizations, 501c3's—the gift of this money is never taxed and yet is fully deductible to a point against the donor's adjusted gross income and thus taxable income. And lastly, they leave money to heirs with a "stepped up basis" on death that renders this wealth, with shrewd estate planning, untaxable. Eliminate these loopholes, and boom, the assets of the rich are taxable in the income tax system, no wealth tax necessary. Going back to our Warren Buffett example from his 2010 tax return, his increase in unrealized capital gains was $10 billion, and his gifts to 501(c)3's were about $2.5 billion. If taxed at an even lower rate than the 40% tax rate back then, say 13%, which was Jerry Brown's proposal in 1992, Buffett would have paid $1.632 billion in taxes as opposed to what he did pay, $.007 billion. And Warren Buffett would love it and so would everyone else. One good reason is that Buffett's $12.5 billion gain of 2010, once taxed that year, would never be taxed again.

Laffer stressed, as he did in his debate with Saez in May, that it is only the increases in wealth per year that the income tax must and yet does not tax. Moreover, if a person sees a decline in wealth year-over-year, the person should get an income-tax deduction or tax refund. The true income of an individual is how much the person spends, gives away, and sees in wealth appreciation per year. Make this combined amount—it is actual income, after all—the income tax base, and the problem that the wealth tax is supposed to solve goes away. Fix what needs repairing, don't throw out what works.

In the debate with Saez, Laffer noted that not only will broadening the income tax base to include all true income enable a big decline in tax rates (to Zucman he suggested that the top income tax rate in Britain could easily fall to 30 percent from today's approximately 45 percent) and the Exchequer would collect more in taxes. Such a broadening would also unlock capital to seek its most productive use. Those rich who hold onto an appreciated stock for fear of having to pay capital gains taxes in whole on the point of sale would be taxed every year only on the increase in asset values that year. Then those values would, it must be stressed, never be taxed again. Untold amounts of fortunes are stuck unsold, their owners taking out loans against their value, because of the specter of a one-time big capital gains taxes. Untold amounts of fortunes get shoved, surely inefficiently from an economic perspective, into 501c3's, providing for a double tax deduction. Taxing increases in true yearly income would make the moving of assets more responsive to the real needs of the economy. Broadening the tax base while lowering the rate would make the economy, surely, soar into growth. The best form of welfare is still a good high-paying job is Arthur Laffer's dictum.

It was curious to see Zucman's response to these points. He never really engaged them. Broadening the tax base as has been argued for years would, indeed, kill off all need for Zucman's pet idea of the wealth tax. Perhaps the proponents of a wealth tax should acknowledge such a reality. Saez certainly did in May. He said that he could work with Laffer on a proposal to broaden the income tax base in lieu of a wealth tax. But to be totally fair, he said that in the absence of tax reform, he supports California's wealth tax. This builds on the understanding that clearly it is better to reform a dysfunctional mass tax system (the deduction-and-exemption-soaked income tax) than keep the dysfunctional mass tax system and then add a new one for special people, the rich. Remember the rich are not defenseless after all. They are rich, smart, and have plenty of ways to retaliate. Cutting out tax loopholes and lowering tax rates avoids class warfare and solves the problem.

Zucman contended that the income tax cannot be reformed and that "the proper way to tax the super-rich has to involve some kind of tax based on wealth." Indeed he said that "only in the past five years" has "academic research" (namely his own) revealed that wealth is countable more than income at the top and therefore should be the basis of the taxation of the super-rich. The contradiction inherent in this argument is that if wealth is countable, so is true income. If wealth is countable this year and the next, the difference between the two numbers is, for all intents and purposes, income. Apply income tax rates and go home. No need for a wealth tax.

The Zucman-Laffer debate revealed that there is a hole in the soul of wealth-tax economics. The very plausibility of a wealth tax—we can count wealth better than we can count income at the top, so the activists say—defeats the purpose of the wealth tax. The plausibility of the wealth tax means that the income tax can be reformed. And it is clearly better to reform the broken parts of the tax system rather than it is to keep the tax system in its current woeful state while adding on a new tax.

The left, bless it, has long had a preference, a romance really, for agit-prop, for browbeating the system with clublike arguments as opposed to the deliberative preferences of liberal democracies. "We think the rich are not paying enough so we've designed a wealth tax." Great—thank you, but you have just provided the means for a true reform of the income tax. Yet on the podcast, Zucman showed no interest whatsoever in acknowledging this patent reality, much less committing himself to not wasting everyone's energy and pursuing the path of least resistance. Our fervent hope is that on deliberation and careful thought that he will come to understand our point and move in our direction. Goodness knows we do not need more dissention. Our goal is to reform the income tax such that it counts all income as part of the tax base. Making those in need more prosperous is far better than making the prosperous more needy. Moreover, making the income tax base comprehensive permits a substantial lowering of the tax rate without any loss even in static revenues while the very rich pay much more than they pay currently, and taxpayers in lower tax brackets will pay less. Democracy and the economy will sail on strongly in such circumstances.

As for whoppers, Zucman bragged that in the late 1940s, based on their experience with the uselessness of the American income tax at high income, United States advisers in Japan installed a wealth tax at the top. He made this point not to bury the wealth tax, but to praise it. He did not mention that the wealth tax in Japan was a dysfunctional mess that lasted all of three years, 1950-1953. It was absurdly unpopular domestically in the country, the butt of jokes, and laughed out of existence after a brief interval. In fact, the high progressive tax rates imposed on Germany as well as Japan by the U.S. military allowed both countries to grow rapidly because those two countries were able to dismantle those high rates along with abolishing wealth taxes. Nor did Zucman mention that top American income tax rates at the time were 94 percent. Ignorance of incentives back then pervaded all sectors. He apparently did not get the irony. Of course the income tax fails to catch income with tax rates on the rich so high. The American "Shoup commission" in Japan was so thick it missed the connection and recommended a wealth tax that in the event fell on its face. Again, the proper focus, as always, is to lower the tax rate while broadening the tax base, obviating any need for an imaginary white knight savior such as a wealth tax to clean up the mess of a high-rate, narrow-base income tax. No one has ever heard of an economy being taxed into prosperity—no one.

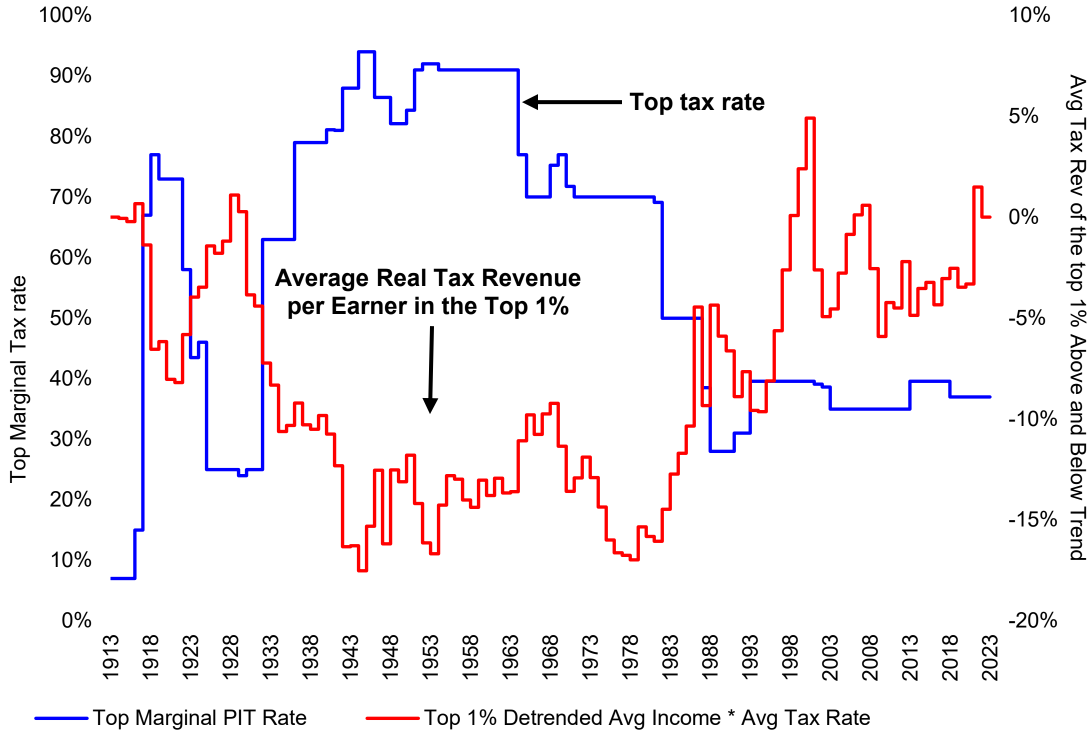
Another whopper was Zucman's continual mentioning of Amazon founder Jeff Bezos not taking a salary at some point while he was CEO and even having paper income so low that he claimed the child tax credit. Among all the centibillionaires, Bezos is one who has made a special point of taking taxable income and paying taxes. Eons ago when he founded Amazon, he said that his "passion project" was space travel and that he would use the wealth he gained from his startup to fund it. As is totally obvious—it is in innumerable government filings—Bezos has done just this. He sells billions in stock and pays taxes also in the billions. He has done this over many years to fund his rocket company Blue Origin. Just earlier this month, he filed to sell $4 billion in Amazon stock for just this purpose. Bezos has ponied up, who knows—$20 billion in federal income taxes over his lifetime? And yet Zucman singles him out for one brief time period when he was paying the IRS nothing. Cherry picking at its worst.

As for people moving away from European countries if and when they might impose a wealth tax, Zucman said that these countries can adopt a global tax regime like the United States and send their former residents a bill. Fat chance collecting on that. There is a reason the United States is alone (actually along with one other country, that hegemon Eritrea) in not having a territorial but a global tax system. This is a system in which you pay the total amount of the federal tax as an American no matter where you live and earn money in the world (with local taxes deductible of course). Zucman is telling little European countries to adopt global taxation—as if as minor geopolitical affairs they will have any prayer of collecting from dots on the map all over the globe. Just remember that the best law in the world is useless if it will not be implemented correctly. Again, Zucman is saying do not fix the income tax but instead impose a new totally untried tax that on any inspection has major flaws. The host Matt Frei asked, “is there one example of a country successfully doing this?” Zucman’s excellent response: “No.” He asked Dr. Laffer the same question on his comprehensive tax base and lower tax rates and the answer was “yes”. Reagan did it in the U.S. and it worked wonders.

It is quite common practice for the very rich keep their money in appreciated stock. If they give appreciated stock to 501c3’s, the capital gains are not taxable, and the whole amount is tax deductible. And when they die, they pass on money into an estate without paying capital gains taxes. Each of these alternatives means income leading to wealth does not get taxed. If stocks are never sold, no tax. If money is given to organizations, no tax, plus an extra deduction for the donor and tax-free further appreciation of and income from the assets for the 501c3. If money goes into an estate, the taxable basis becomes the value at the date of death—not at the cost basis, i.e., no capital gains tax. Loophole city. Close them all, and trillions will become income every year. This enables a lowering of the top income tax rate. A lower top rate and less reason to shelter will result, of course, in far greater attention to real economic projects and therefore to the permanent stimulation of economic growth and tax revenues.

Laffer dropped an unexpected devastating bombshell on the podcast that in *Taxes Have Consequences*, the trio including his co-authors used Zucman’s own data—loved and worked his data in all the glorious detail from 1913 to the present. And Zucman’s data screamed, every time the top tax rate went up, three things happened: income <u>and</u> tax receipts from the rich went down, the economy faltered, and the poor got hammered. And when tax rates on the rich fell? Zucman’s data show clearly that tax revenues from the rich rose, opportunities for the less affluent and the poor increased, and the economy outperformed. Here is the graph Laffer made, again *from Zucman’s own data,* about the relationship of tax receipts from the top one percent of earners and the top tax rate that such earners face. The relationship is unambiguously inverse:

Average Annual Real Tax Revenue per earner in the Top 1% Detrended vs. Top Tax Rate
(annual, 1913-2022, detrended using a 1.2% trend)



Sources: PSZ, Tax Foundation, IRS SOI

Throughout the debate, Laffer emphasized that our focus should be on helping the poor with pro-growth economics, not hurting the rich. Focusing on a wealth tax is to fixate on taking from the rich. It is unseemly as well as uncaring. Free up the rich to do what they really like to do. Stop guiding them into tax shelters and tax them lightly on their true income. Some foundations might die off, and with them some tax-planning specialists and some lobbyists in Congress. But this will come at the benefit of resurgent economic growth and a much broader extension of prosperity throughout the population than today in our much-maligned era of “income inequality.”