

Fuss on Wealth Redistribution and Wealth Tax

Against the spirit of entrepreneurship, human behavior as well as nature

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When we talk about economic inequalities, we can look at the data from World Inequality Database ([WID](#)),¹ which has been created by researchers around the globe (Economist Thomas Piketty, his colleagues and team). With concrete data, Piketty highlighted the issue of inequalities worldwide through his book “Capital in the Twenty-First Century”².

Why the issue is in the news and on the table for discussion: Because the world had been struggling for economic growth after the 2008 financial crisis and *present tools (monetary and fiscal) failed to foster the growth*. Now the Covid-19 pandemic has put the break on economic growth and the ongoing Russia-Ukraine war has fueled inflation to historic highs creating fear of stagflation. So we can say getting Economic growth has become a challenge once again.

Recently, Japan's new Prime Minister, Fumio Kishida, *reiterated* the issue of wealth disparities and framed a [council](#)³ to chalk out a strategy for wealth redistribution. He urged companies to raise wages by 3% or more to boost economic growth. **Note that** Japan had been struggling for economic growth for the last two decades, and all the economic tools (fiscal or monetary), policies of Abenomics failed to give growth. So now it's on the new prime minister to reshape Japan's economy and make policies that can provide growth. He proposed the idea of a “[New Form of Capitalism](#)”⁴ and recently drew up its draft plan.

There have been suggestions and efforts from various economists/[policymakers](#) to impose a wealth tax⁵ on the ultra-rich for wealth redistribution.

Is the idea of wealth distribution appropriate?

As per Economics, there are two main market forces in any economic unit: demand and supply. One is represented by Entrepreneur (seller), and the other is by Consumer (buyer). According to the available demand and supply at any given time, a general equilibrium will be established and the price level will settle.

Sellers will always seek to make more profits by increasing sales and reducing costs. Consumers will always consume when there is a utility (need) of any product/service.

Would any entrepreneur/seller like a decrease in profit margins and distribution of his wealth? Answer: is definitely NO. This idea is against the spirit with which he establishes/runs a business, against his self-interest, and against human behavior as well as nature.

¹ World Inequality Database (WID) <https://wid.world/>

² Capital in the Twenty-First Century https://en.wikipedia.org/wiki/Capital_in_the_Twenty-First_Century

³ Article <https://www.reuters.com/world/asia-pacific/japan-pm-kishida-launches-flagship-panel-look-into-wealth-redistribution-2021-10-15/>

⁴ Article <https://www.bloomberg.com/news/articles/2022-05-31/japan-panel-to-release-proposal-for-kishida-s-new-capitalism>

⁵ Article <https://www.cnbc.com/2021/03/01/elizabeth-warren-bernie-sanders-propose-3percent-wealth-tax-on-billionaires.html>

An entrepreneur establishes a business, invests in it, to get the returns/profits. He uses his entrepreneur skills, makes efforts to increase the sales and reduce the costs so that profit margins can be increased.

Any policy/law/tax for distribution of his wealth or increase in wages will only discourage the entrepreneurs; will decrease the entrepreneurship/investment activity in the economic unit and will increase the unemployment. If someone is wealthy because of his/his ancestors' entrepreneur skill because he was/is able to sell his products, he has the right to get profit. It's totally against the spirit of entrepreneurship, human behavior as well as nature. Entrepreneurs' efforts will go in vain if you tax him so high or discriminatingly. If someone is wealthy because of unlawful illegal activities/appropriation/tax evasion, that should be checked and dealt with.

Idea of wealth distribution is basically to increase money circulation, so that aggregate demand can be increased and economic growth can be increased. For that there must be other market tools which can facilitate wealth transfer from entrepreneur to consumer, rather than any institution (government, central bank or other) act as middle man and impose tax on the entrepreneurs for distribution in poor, force them, make policies to increase wages and for wealth distribution.

*Economist Thomas Piketty wrote a chapter “Rethinking the progressive Income tax”⁶ (chapter 14) in his book “Capital in the Twenty-First Century” and raised the question of Top Marginal tax rate (as much as 80% on income above \$50000 or \$1 million a year). **But Piketty has himself accepted in the chapter (Page.No.499) that the top tax rate had been increased abruptly only after the world war because of different political and financial context** (shown in the Figures 14.1 and 14.2). In present times which is normal, there is no exceptionally large public spending (defense, infra) needed now as was needed in and after world wars. Raising the top marginal tax rate and imposing wealth tax will be an absurd idea which will only have a bad effect on the economies in the long run. The **Japanese government** can form a policy for wealth distribution or talk to industry for wage increase but it's against the spirit of nature and is an intervention between two forces, which will be unsuccessful in the long run.*

World can try wrong policies/ways like wealth tax⁷ ([Top economists Stiglitz and Piketty recommending it](#)) etc. for wealth distribution, but it will definitely fail in the long run as the USSR failed to sustain in the long run because it was an intervention between the two main market forces.

After the Covid-19 pandemic and amid ongoing Russian Ukraine war, the world economy is fighting high inflation, fearing stagflation and struggling for economic growth again. Many developing countries are going through tough times. [New Financial Model](#)⁸ (expected to be released soon) which will promote the free market economies, entrepreneurship, help in increasing government revenue multi-fold and maintain economic growth in low/high growth period etc., **can be an option for the economies.**

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⁶ Chapter 14: Capital in the Twenty-First Century, Thomas Piketty, 2013.

⁷ <https://www.cnn.com/2020/09/17/economists-stiglitz-and-piketty-us-needs-a-wealth-tax.html> & <https://www.youtube.com/watch?v=fMdRpXZQZLY>

⁸ Download introductory Paper on New Financial Model from the website: <https://newfinancialmodel.com>