The Political Economy of Optimal Taxation

Elias Nosrati

University of Oslo

Abstract: The question of how to design socially optimal tax policies is located at the epicenter of today's inequality debate. However, the field of optimal policy design is dominated by a distinctive brand of economic analysis which suffers from a blinkered theoretical lens and weak empirical foundations. This article offers an alternative framework for studying optimal policy design that replaces the dominant economic model's emphasis on individual utility with a sociological emphasis on unequal life chances. Cross-national data are mobilized to study the architecture of contemporary tax systems across different institutional contexts. The dual taxation of labor and capital income coupled with the preferential treatment of socially concentrated wealth accumulation is shown to have generated sharp tax regressivity at the top of the resource distribution in all countries under consideration, from the (neo)liberal Anglosphere to social-democratic Scandinavia. Rationales for and possible designs of a progressive wealth tax, for which there is renewed international interest, are then explored in detail. A tractable formal model of optimal policy design is presented in which the net welfare effect of a tax policy reform emerges as a weighted sum of how the reform impacts aggregate life chances, inequality in life chances, and the ambient ecosphere. Under common normative and analytical assumptions, a socially optimal annual wealth tax levied on society's most affluent—defined above a high exemption threshold—is shown to be positive and, in empirically realistic scenarios, lies upward of 10 percent. The corresponding top income tax rate exceeds 65 percent and can, on "limitarian" grounds, approach the confiscatory rate.

Keywords: optimal taxation; political economy; extreme wealth; unequal life chances

WHAT is the socially optimal rate at which society's most affluent should be taxed? This question lies at the heart of today's inequality debate, yet its answer remains elusive. Beyond the general view that tax policies should have an ameliorative function—in the broad sense of maximizing some measure of social welfare—the question of how such policies should be designed in practice remains fiercely contested. Not only do stakeholders disagree on how different tax instruments—from taxes on income flows to taxes on capital stock and from taxes on individuals and corporations to taxes on goods and services—might impact social welfare; the very definition of social welfare and, by extension, the criteria with respect to which a given tax system may be deemed socially optimal also constitute key sites of intellectual and political contestation.

The field of optimal policy design tends to be dominated by a neoclassical brand of economics which, in a sequence of (in)famous theoretical papers from the 1970s and 1980s, purportedly demonstrated the economically deleterious consequences of high tax rates at the top of the resource distribution—to the effect that the socially optimal top tax rate was said to be zero (e.g., Atkinson and Stiglitz 1976; Chamley 1986; Judd 1985; Mirrlees 1971; Seade 1977; Stiglitz 1982). However, these theoretical results are not only largely irrelevant for real-world policy-making, but they

also derive from a strikingly narrow conceptualization of social welfare, based on individual utility-maximizing behaviors, that resonates poorly with competing approaches in neighboring disciplines or even in less orthodox branches of economics itself. The present article revisits the theory of social welfare and offers an alternative framework for studying optimal policy design that replaces the dominant economic model's emphasis on individual utility with a sociological emphasis on unequal life chances. From this renewed conceptual basis, it proposes a different approach on the political economy of optimal taxation.

Although there is a gargantuan literature on the topic of optimal taxation in the neoclassical tradition—whose utilitarian calculus continues to hold sway over both research and decision-making—its sociological counterpart is virtually non-existent. An important branch of economic sociology charts the comparative-historical anatomy of modern tax systems (e.g., Campbell 1993, 2005; Martin, Mehrotra, and Prasad 2009a; Martin and Prasad 2014), while another investigates tax-related economic behavior (e.g., Young 2017; Young and Lurie 2025; Young, Lurie, and Prisinzano 2016), but both branches refrain from probing the question of optimal taxation itself. Although tax policy design remains pivotal as both topic and tool in the study of inequality, redistribution, the state, and social welfare itself— all objects of major sociological concern—sociology's direct contribution to the study of optimal taxation is yet to see the light of day. This article advances the view that not only does furnishing this field with a distinctly sociological anchoring yield novel insights of significant relevance to public policy, but it also enriches the discipline of sociology by opening up new avenues for research.

The article is structured as follows. Section 1 outlines the key sociological motivation for the study of progressive income and wealth taxation. Above and beyond being a vital means of raising revenue to fund the provision of public goods and services, taxation is also construed as a public policy tool capable of addressing and redressing the social problem of extreme wealth and its downstream consequences. Moreover, a case is made that the optimal tax problem provides a strategic opportunity to revisit and revise the theory of social welfare and the corresponding theory of optimal policy design.

In section 2, cross-national data are used to survey the architecture of contemporary tax systems in a selection of countries around the world that represent key institutional "varieties" of contemporary capitalism. This section stresses the preferential tax treatment of wealth accumulation despite high and increasing wealth inequality in all countries under consideration. A simple formal model of income and wealth dynamics is developed to show how even a comprehensive income tax fails to target the leading source of economic inequality, namely wealth concentration. This serves as additional motivation for studying the taxation of wealth.

Against this empirical backdrop, the dominant theory of optimal policy design is reviewed in section 3 and a case is made that the criterion of "optimality" should be anchored not in the quasi-philosophical notion of utility—which forms the cornerstone of neoclassical theory—but in the sociological concept of life chances. This approach entails more than a lexical shift from one universe of jargon to another; it dispenses with the behavioral assumptions of the neoclassical model altogether and

redirects our attention to the relational structure of social space and the institutions that undergird it. In particular, unlike existing frameworks, the proposed approach explicitly incorporates aggregative, distributive, and environmental normative concerns.

This alternative approach is subsequently put to work in section 4 through the study of progressive income and wealth taxation, with special emphasis on the latter. In a mathematically tractable yet empirically realistic model, the net welfare effect of introducing a tax reform that targets the top wealth bracket is decomposed into a weighted sum of the reform's social and environmental consequences. The weights in this weighted sum are conceptualized as the marginal value that society accords to improving life chances, reducing social inequality, and protecting the environment. The socially optimal tax rate emerges as a function of three principal parameters, namely (*a*) the elasticity of extreme wealth with respect to the net-of-tax rate, (*b*) the welfare multiplier effect of extreme wealth, and (*c*) the welfare multiplier effect of public funds—all of which will be defined below. The determinants of these parameters, the range of empirically realistic values they may take, and the attendant policy implications are then discussed.

Section 4 also discusses the leading critique of progressive taxation, namely that high top tax rates inevitably carry significant efficiency costs through the behavioral responses they induce. This critique is related back to the parameters of the optimal tax formula and attention is drawn to how they crucially depend on historical and institutional context. Behavioral responses to progressive taxation should therefore be construed not as unalterable mechanical laws but as malleable social processes that can be (re)shaped through appropriate forms of collective action. As such, what is typically portrayed as an unbridgeable gulf between "equity" and "efficiency" in tax policy debates can to a significant extent be resolved once distributive and aggregative dynamics are acknowledged as being mutually imbricated.

A note on terminology is in order. As will become evident in what follows, the boundary between income and wealth dynamics is not always clear-cut at the very top of the income and wealth distributions. For this reason, terms such as "ultra-wealthy," "ultra-rich," "high-net worth," or "affluent" are used interchangeably. In a similar vein, the notion of (economic) "resource," when left unspecified, will comprise both income flows and capital stock. However, when viewed as a collective, the individuals to whom these relatively loose terms are applied will turn out to have a more precise sociological designation: they unambiguously belong to the upper—meaning economically dominant—fraction of the capitalist class.

The principal arguments of the article are presented in both substantive and formal terms. Most readers are likely to find the substantive elements of greater interest and may readily skip the more technical passages without any loss of understanding. A moderate portion of mathematical formalism is nonetheless retained to pinpoint the immediate consequences of altering the assumptions of the dominant economic approach and to showcase that tax analysis need not be of a neoclassical variety to be placed on a formal footing. However, mathematical formalization does not automatically entail analytical rigor—in fact, it may easily undermine it—and hence it is the substantive or "qualitative" crux of the argument that is foregrounded.

1   Motivation

Why is the question of optimal taxation worthy of serious attention? This article takes its cue from the following threefold motivation.

Taxation and the Provision of Public Goods

At a time when the universalist welfare state is under serious economic strain, taxation is a means of raising much-needed revenue, by way of compulsory financial contributions made by individuals and corporations, to fund the provision of public goods and services—from housing and healthcare to schooling and security—and concurrently to invest in the green transition. Given the current magnitude of the world's largest private fortunes, even a modest wealth tax is capable of generating significant public funds for such an undertaking (e.g., Zucman 2024). Underpinning this undertaking is a particular conception of the public−private divide whereby government and other collective social actors engage in vital activities which the private sector cannot efficiently undertake on its own (Offer 2022). Thus, tax revenues are not only the "life-blood" of the modern state (Braun 1975, p. 243), propping up its perceived legitimacy (Tilly 2009) and feeding its "sinews of power" (Brewer 1989), but they also constitute an important channel through which society invests in its members' life chances and protects the environment.

Taxation and the Problem of Extreme Wealth

However, taxation is not only a matter of generating revenue: as a socially sanctioned obligation to contribute money to the state that engages citizens in webs of generalized reciprocity, it is also a more general policy tool that regulates private property relations (cf. Campbell 1993, 2005; Martin 2020; Martin, Mehrotra, and Prasad 2009b). Progressive taxation, in particular, is a regulatory mechanism designed to circumscribe the possible forms of ownership and, more specifically, to tackle the social problem of extreme wealth. By "extreme wealth" is meant the point beyond which the concentration of society's resources in the hands of a few private actors causes social and environmental harm. In line with a large and growing body of literature, such harm may be broadly characterized in the following terms (for synthetic overviews, see, e.g., Chancel et al. 2022; Piketty and Sandel 2025; Robeyns 2024; Savage 2021; Scanlon 2018; Stiglitz 2012; Therborn 2013):

   a. High concentrations of wealth translate into high concentrations of social power. This is because, to paraphrase Sen (1992, p. 115), relative inequalities in the space of income and wealth can yield absolute inequalities in the space of life chances. Such inequalities, in turn, distort civic opportunities for effective democratic participation. The enduring nexus of affluence and influence thus renders extreme wealth a serious democratic problem (Elsässer and Schäfer 2023; Gilens and Page 2014; Robeyns 2019).

   b. Extreme wealth is a leading source of environmental destruction. Recent research (e.g., Chancel 2022; Oswald, Owen, and Steinberger 2020; Rehm and Chancel 2022) has derived methods for apportioning carbon emissions across

the income and wealth distributions, showing that globally, the top 1 percent account for nearly one-fifth of all carbon emissions and the top 10 percent account for nearly half (Chancel et al. 2022, p. 122). This occurs through two principal mechanisms, namely

  i. consumption-related carbon emissions, that is, emissions resulting from the consumption of energy-intensive goods and services—such as private jets and yachts, luxury homes, or high-end fashion brands; and

  ii. investment-related carbon emissions, that is, emissions resulting from investment decisions made by capital owners located within major circuits of production, typically involving fossil fuel infrastructures and other high-externality industrial complexes.

Top wealth holders can thus be held responsible not only for their private energy-intensive consumption behavior but also for the emissions that occur in production processes that they, by virtue of their social class position, implicitly or explicitly control. In addition, tax avoidance and evasion behaviors, so common among the ultra-rich (Alstadsæter, Johannesen, and Zucman 2018,2019; Alstadsæter et al. 2022, 2024; Guyton et al. 2021), increasingly undermine efforts to fund effective climate policies. It follows that a well-designed progressive tax system can reduce the carbon footprint at the top and, by extension, on a global scale by restricting access to luxury goods and services, by blocking or redirecting investment behaviors that amplify and accelerate environmental degradation, and by mobilizing revenue to fund green investments and fuel the green transition. Extreme wealth, in short, is a central driver of the ongoing climate crisis and a natural target for climate policy intervention—of which progressive taxation is an oft-neglected exemplar (Chancel 2020).

  c. The hoarding of society's resources by a small minority aggravates distributional conflicts, heightens psychosocial stress, and warps the cultural fabric of which shared systems of meaning, recognition, reciprocity, and representation are made. This negatively impacts not only society's most vulnerable but also society as a whole. Such is the hypothesis advanced by a large group of interdisciplinary scholars (see, e.g., Kawachi and Subramanian 2014; Pickett and Wilkinson 2015; Wilkinson and Pickett 2009, 2019). Although the research literature on the direct welfare effects of inequality has proved controversial for both methodological and ideological reasons, the underlying hypothesis that inequality itself is harmful continues to find empirical support, in fields ranging from social psychology to health economics (e.g., Melita, Willis, and Rodríguez-Bailón 2021; Rablen and Oswald 2008; Redelmaier and Singh 2022). Somewhat less controversial, however, is the more general notion that extreme inequality has a distinct cultural effect that weakens social cohesion, magnifies divisions, breeds instability, and thus "corrodes the social contract" (Saez and Zucman 2019a, p. 438; see Savage 2021; Stiglitz 2012; Therborn 2013).

  d. Extreme wealth has major efficiency costs. Above a certain threshold, additional income and wealth contributes nothing to the welfare of the wealthy.

Rather than "trickling down," the enormous resources they command are instead the source of distortionary monopolistic control over key political and economic processes (e.g., Domhoff 2022; Saez and Zucman 2019b; Stiglitz 2012). However, these resources can be put to better use if collectively deployed in the public interest to solve urgent unmet needs, from housing to hunger (Robeyns 2019).

In short, the social problem of extreme wealth involves democratic, environmental, cultural, and economic externalities. These externalities have motivated recent developments in so-called "limitarianism," which advocates that "it is not morally permissible to have more resources than are needed to fully flourish in life" (Robeyns 2023, p. 15) and calls for the public confiscation of private wealth above a "maximum wealth" or "riches" line. The latter can be defined analogously to a poverty line, which delineates a set of resources and the corresponding capabilities that are needed to reach a minimally acceptable standard of living (cf. Sen 1983). On the other hand, a riches line represents the point beyond which the accumulation of resources is deemed socially harmful and hence ethically inadmissible. Much like the poverty line, the riches line is subject to intense controversy and debate, but recent research on population preferences indicates that it should lie somewhere in the wide range between $10 million and $1 billion (e.g., New Economics Foundation 2025; Robeyns et al. 2021).

Regardless of the controversies surrounding where such a riches line might be drawn, the social harms associated with the problem of extreme wealth and the limitarian argument for which they provide a rationale serve to highlight that taxation is not reducible to the act of raising public revenue. In fact, as will be developed in detail below, a tax system may be considered socially optimal even if it fails to raise any revenue at all: compressing the resource distribution by reducing the wealth of the ultra-wealthy may in and of itself be in the public interest—even if doing so destroys part of the tax base in the process.

Taxation and the Theory of Social Welfare

The upshot of the above is that not only do tax policies determine the funding and provision of public goods or shape economic activity by regulating social property relations; as vectors of mutual obligation, recognition, and reciprocity inscribed in the social contract, they also carry a moral valence that reflects society's normative priorities. These normative priorities, in turn, inform the evaluative criteria with respect to which a given policy formation may be deemed socially optimal. Thus, the optimal tax problem offers a strategic opportunity to revisit the question of what is accorded social value and weight in public policy design. More specifically, insofar as we accept the premise that public policies should be designed in such a way as to maximize some measure of social welfare, the optimal tax problem necessitates an explicit conceptualization of social welfare itself. As will be expounded below, such a conceptualization and the analytical parameters it privileges will be revelatory of the ambient "inequality regime" (Piketty 2020), the relational structures that underpin it, and the moral categories that both animate and emanate from it.

A final note on this article's focus on personal income and wealth taxation in contrast to other types of taxation is in order. Although consumption and payroll taxes, in particular, are important sources of government revenue and have been central to the economics of the modern welfare state (e.g., Ganghof 2006, 2007; Kato 2003; Prasad and Deng 2009; Steinmo 1993; Swank and Steinmo 2002; Webber and Wildavsky 1986; Wilensky 2002), the nexus connecting different tax instruments to the growing problem of inequality has led the most recent optimal taxation literature to be focused on personal income and wealth taxes. Both consumption and payroll taxes are more or less intrinsically regressive (Bruil et al. 2025): the former because the poor consume a greater share of their income on goods and services, the latter because they are levied at a flat rate on labor earnings—and not on business income—while typically being capped above a certain income level. In contrast, personal income and wealth taxes are not intrinsically regressive; rather, as the next section will demonstrate, they have been *made* regressive in recent decades. Against the backdrop of such salient inequality inscribed in economic policy arrangements coupled with mounting fiscal and political pressures on the welfare state, it becomes natural for the question of what constitutes a socially optimal tax system to be cast in terms of the optimal taxation of income and wealth.

2   Varieties of Tax Regressivity

To provide an empirical backdrop for the subsequent analysis, this section surveys the architecture of contemporary tax systems across a range of countries that represent key institutional "varieties" of contemporary capitalism. Special attention is devoted to the dual taxation of labor and capital income and to the role of unrealized capital gains in the reproduction of economic inequality. A simple model of income and wealth dynamics is then developed to pinpoint how the exact calibration of different tax instruments can impact extreme wealth.

Dual Income Taxation

Income taxation applies to total market income, which is composed of (*a*) labor income, that is, wages and other forms of work compensation, and (*b*) capital income, that is, income flows derived from the ownership of capital assets such as land, buildings, machinery, or corporate stock. For the vast majority of people, labor income makes up nearly all of total market income. At the very top of the income distribution, however, the labor income share tends to drop dramatically. High-quality administrative data from Norway suggest that labor income makes up no more than a third of total market income in the top income percentile, whereas capital income derived from business activities makes up more than half (Aaberge, Modalsli, and Vestad 2020). Among the top 0.01 percent, the labor income share drops below 5 percent and the business-related income share exceeds 90 percent (Aaberge et al. 2021). Comparable data from the UK show that nearly two-thirds of all taxable capital gains go to only a few thousand individuals making over £1 million in annual gains (Advani and Summers 2020, 2022; Corlett, Advani, and Summers 2020). Thus, the unequal distribution of capital income commonly

involves not merely the top income percentile but the very upper tail of the top percentile. Similar patterns of capital income concentration have also been documented in Sweden (Finanspolitiska rådet 2024; Roine and Wadenström, 2012) and the United States (Campbell, Robbins, and Wylde 2025).

Among the different kinds of capital income, capital gains—meaning income accrued from the appreciation of financial or physical assets—are of special importance. Because of the extreme concentration of such assets among society's most affluent, accounting for the income flows that they generate is crucial for gauging the magnitude of economic inequality and for correctly mapping the corresponding effective tax schedule across the social class structure. The terminology of social class—and not just that of "income"—is justified by the fact that the category of capital gains that is central to the accumulation of extreme wealth is that which derives from the ownership of unlisted corporate shares (i.e., shares that are privately traded outside formal markets), as opposed to more common kinds of wealth such as bank deposits or real estate. The strong link between capital gains and extreme wealth is thus related to positions of corporate ownership and control. In Scott's (1991, p.65) turn of phrase, when it comes to extreme wealth, what is at stake is not "property for use" but "property for power."

Most countries have a dual tax system in which labor and capital income are taxed separately (Hourani and Perret 2025; Hourani et al. 2023). In all countries that are included in this study, labor income is subject to moderately progressive taxation, with the statutory top labor income tax rate averaging around 40 percent. However, capital gains are typically taxed at a preferential flat rate which, at 20 percent to 30 percent in most cases, is significantly lower than the top labor income tax rate. This general pattern is presented in Table 1, which shows the statutory tax wedge between labor and capital income in each country, together with the ratio of national wealth to national income and the share of national income and wealth that goes to the top percentile of the resource distribution. The relative size of the national wealth stock, which tends to constitute between 400 percent and 800 percent of national income, has returned to historically high levels in recent decades. Coupled with a rate of return to capital that exceeds income and population growth, wealth concentration thus becomes an increasingly weighty source of long-run economic inequality (Piketty 2014). The top percentile's income share ranges from 9 percent in Norway to 23 percent in India, that is, from 9 times to 23 times higher than a position of equality where each percentile would receive a proportional 1 percent of national income. However, the top wealth share tends to be significantly higher in all countries, ranging from 21 percent in the UK to 55 percent in South Africa. But even though wealth ownership is more concentrated in all countries, returns to wealth are more leniently taxed compared to labor, thus handing capital owners a clear incentive to take remuneration in the form of gains instead of wages. Existing tax regimes thus actively widen the gap between the holders of capital and those dependent solely on their labor earnings.

Meanwhile, effective tax rates typically differ from statutory tax rates. In a country like Norway, which has the highest statutory capital gains tax rate in the sample, the ordinary yield on corporate shares corresponding to the risk-free rate of return—typically indexed by the deposit interest rate—is shielded from income taxation such that only the income exceeding this ordinary yield is taxed at the

Table 1: Country inequality and statutory tax profiles.

	Wealth-Income Ratio	Top Income Share	Top Wealth Share	Top Labor Tax	Top Capital Tax
Brazil	3.9	21%	37%	28%	23%
China	8.8	16%	30%	45%	20%
France	6.2	12%	27%	45%	30%
Germany	6.9	13%	28%	45%	25%
India	4.8	23%	40%	38%	25%
Japan	6.9	13%	25%	45%	20%
Mexico	4.6	22%	37%	35%	35%
Norway	7.7	9%	23%	47%	38%
South Africa	3.4	19%	55%	45%	18%
Sweden	6.0	11%	27%	52%	30%
UK	4.4	13%	21%	45%	32%
USA	5.8	21%	35%	37%	20%

Notes: The table combines 2023 and 2024 data from the World Inequality Database, the PwC Worldwide Tax Summaries database, and individual country tax authorities. The first column (WEALTH-INCOME RATIO) shows the ratio of the national capital stock to national income in each country. The second column (TOP INCOME SHARE) shows the share of the national income that goes to the top percentile of the income distribution in each country. The third column (TOP WEALTH SHARE) shows the share of the national capital stock that is privately owned by the top percentile of the wealth distribution in each country. The fourth column (TOP LABOR TAX) shows the top statutory marginal tax rate on labor income in each country. The fifth column (TOP CAPITAL TAX) shows the top statutory marginal tax rate on capital gains in each country.

personal level (Hourani et al. 2023, p. 46). The effective capital gains tax rate is therefore significantly lower than the statutory 38 percent, especially when interest rates are high. In a country like Mexico, which has the second-highest statutory capital gains tax rate in the sample, there is a similar gap between statutory and effective tax rates because stock market gains are typically excluded from the ordinary income tax base. Effective tax schedules are visualized for all countries in Figure 1, which compares effective tax rates at the top end of the income distribution for someone earning labor income only to someone whose income derives only from capital gains. Across all countries—including in egalitarian Scandinavia—the effective tax rate on capital gains never exceeds 30 percent, to the effect that the progressive income tax emerges as a progressive *labor* income tax. Given the concentration of capital ownership and the minimal role of labor earnings for the ultra-rich, the resulting tax schedule thus turns sharply regressive at the top of the income distribution.

Avoidance and Evasion

The above discussion is subject to three important caveats. First, it only applies to *realized* capital gains, meaning capital income that results from shares changing hands through explicit market transactions. However, if they are not realized upon accrual, capital gains fail to be registered as market income and are therefore shielded from income taxation altogether, even if the underlying asset values—such
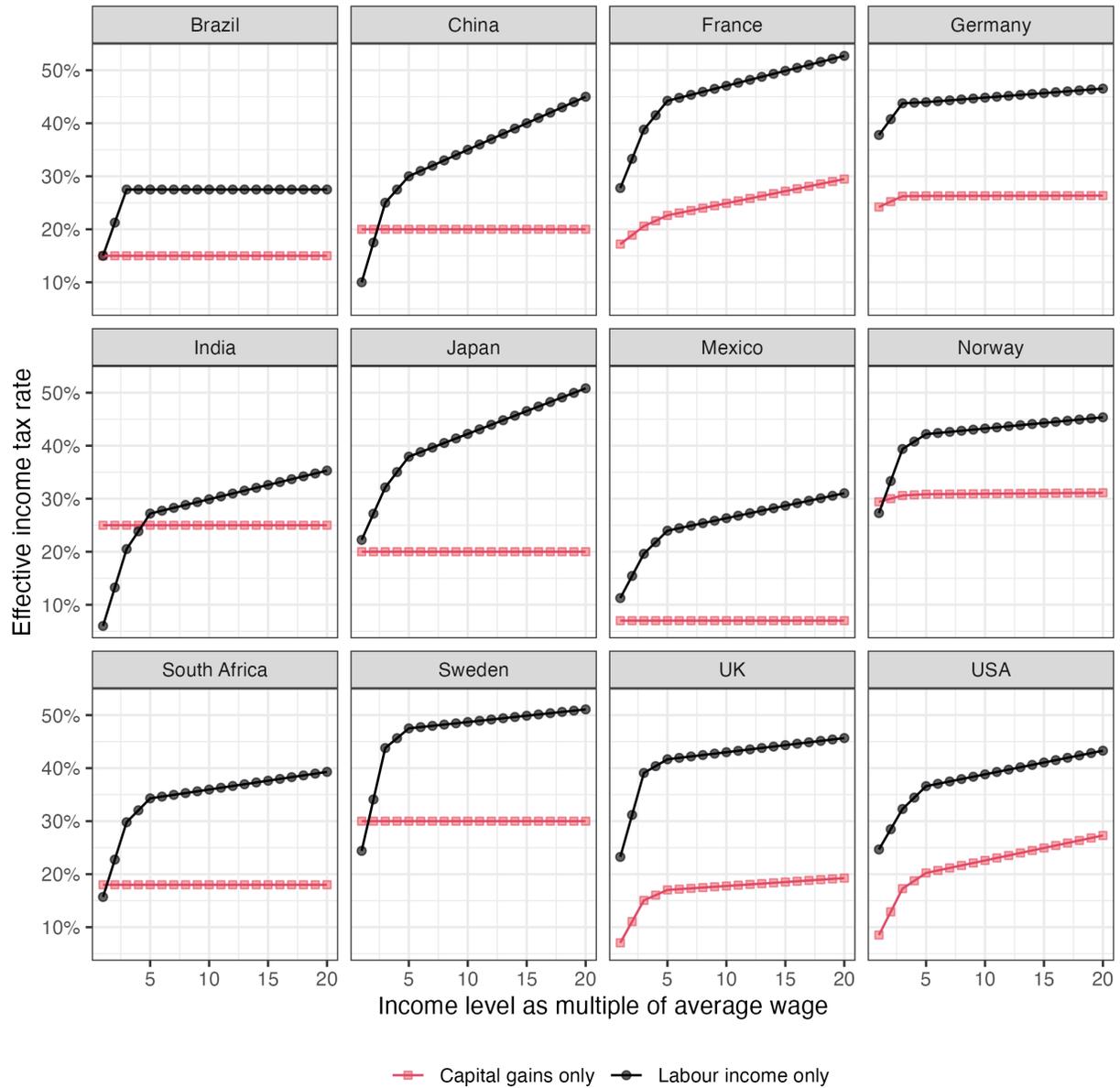
Figure 1: Effective tax wedge between labor and capital income at the top end of the income distribution in selected countries in 2024 (for Brazil, China, India, and South Africa) and 2021 (for all other countries). *Source:* Hourani et al. (2023) and author's calculations based on data from the PwC Worldwide Tax Summaries database and individual country tax authorities.

as Alphabet or Amazon stock prices—go through the roof and hence bolster a person's net worth. Second, the above computation of effective tax rates does not consider a crucial legal mechanism by which capital gains are typically rendered tax-exempt, namely when they are channelled through private holding companies. Third, as is well known, the ultra-wealthy hold a substantial portion of their wealth in offshore tax havens, further retrenching the effective tax base (Alstadsæter et al. 2018, 2019, 2022, 2024; Guyton et al. 2021).
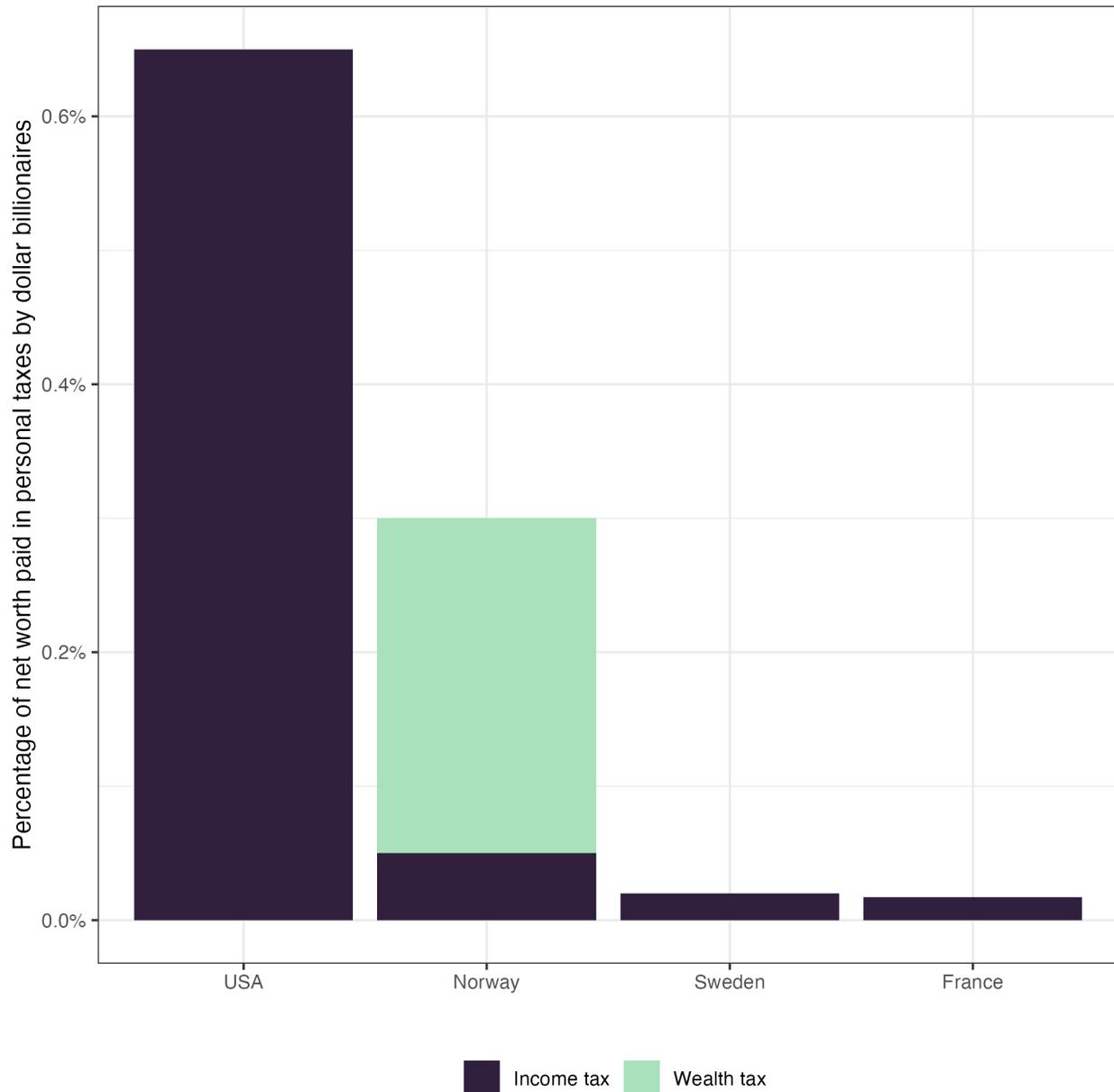
Figure 2: Share of net worth paid in personal taxes by dollar billionaires in selected OECD countries. *Source:* Zucman (2024). Figure slightly modified by the author to take account of the abolition of the French wealth tax in 2018.

This threefold omission implies that (*a*) the total market income of the upper fraction of the capitalist class is significantly underestimated, (*b*) the accumulation of extreme wealth is closely linked to both tax avoidance and tax evasion, and (*c*) the effective tax schedule is even more regressive at the very top than the above figures indicated (Alstadsæter et al. 2022, 2024; Zucman 2024). The latter point is illustrated in the case of Norway, France, Sweden, and the United States in Figure 2, which shows that dollar billionaires in these countries pay a vanishingly small portion of their net worth in taxes. It is noteworthy that European dollar billionaires

pay even less in taxes than their American counterparts (see Blanchet, Chancel, and Gethin 2022), though Norway stands somewhat apart from France and Sweden due to its unique wealth tax—which nonetheless does little to effectively reduce extreme wealth.

Income and Wealth Dynamics

To get a clearer sense of how income and wealth dynamics are related in the reproduction of economic inequality, let labor income be denoted by z and let initial wealth and the rate of return on wealth be denoted by k_0 and r, respectively. Then, total market income y is given by

$$y = z + r \cdot k_0. \tag{1}$$

If a labor income tax τ_z and a capital income tax τ_c are now applied, then net-of-tax disposable market income $\tilde{y}$ is given by

$$\tilde{y} = (1 - \tau_z) \cdot z + (1 - \tau_c) \cdot (r \cdot k_0). \tag{2}$$

One sees immediately that if τ_z and τ_c differ significantly—as is the case empirically—then economic inequality is magnified by the preferential taxation of capital income. If instead we consider a comprehensive income tax τ_y that applies equally to both labor and capital income, then, $\tilde{y}$ is given by

$$\tilde{y} = (1 - \tau_y) \cdot (z + r \cdot k_0). \tag{3}$$

However, if τ_y only applies to observed market income, then capital gains that are unrealized, legally repackaged, or siphoned offshore continue to go untaxed. Thus, if $r \cdot k_0$ is decomposed into a realized or observed part δk^o and an unrealized or unobserved part δk^u, then

$$\tilde{y} = (1 - \tau_y) \cdot (z + \delta k^o) + \delta k^u. \tag{4}$$

For simplicity, suppose that all disposable realized income is consumed, while δk^u is saved. Then, in a basic two-period model, accumulated wealth k is given by

$$k = k_0 + \delta k^u. \tag{5}$$

In the absence of wealth taxation, even a comprehensive income tax will therefore fail to target the principal source of inequality, namely (returns to) wealth. This is because δk^u will systematically escape income taxation. If a wealth tax τ_k is introduced, then $\tilde{y}$ is given by

$$\tilde{y} = (1 - \tau_y) \cdot (z + r \cdot (1 - \tau_k) \cdot k_0), \tag{6}$$

while net-of-tax wealth accumulation is given by

$$\tilde{k} = (1 - \tau_k) \cdot (k_0 + \delta k^u). \tag{7}$$

Two main points emerge from this simple formal exercise. First, for the ultra-wealthy, income and wealth dynamics are closely intertwined and the boundary between them is often fuzzy. That is why the notion of "extreme wealth" is used as a shorthand for the set of economic resources owned by the upper fraction of the capitalist class, which may manifest either in the form of observed income flows or accumulated capital stock. Second, the exercise shows that even a comprehensive income tax is insufficient to effectively dent extreme wealth concentration because taxing the full return to wealth—including unrealized capital gains—is a hitherto untested and practically challenging policy measure (Piketty, Saez, and Zucman 2023).

As noted by Saez and Zucman (2019a, p. 470), one possible way of taxing unrealised gains without recourse to a wealth tax would be to levy a prepaid withholding tax that would kick in once such unrealized gains exceed a chosen threshold (or "riches line"). The tax would be then credited back when and if those gains are realized and a conventional capital gains or income tax would then apply. In comparison, an annual wealth tax would be logistically easier and would similarly ensure that tax burdens are distributed in a way that reflects real economic standing. This would mean that the ultra-wealthy can no longer avoid paying taxes merely by artificially manipulating the tax base: realized gains would be taxed under the income tax, whereas unrealized gains would form part of the wealth stock that would be subject to wealth taxation. Because the wealth tax would be imposed above a high exemption threshold, only those above the riches line would be liable to pay it—and would no longer be liable once their net worth falls under the chosen threshold. If the threshold is set too low, such a tax design would typically induce avoidance behaviors whereby reported wealth would bunch just below the threshold. In the case of extreme wealth, however, this will not be a problem because the gap between the ultra-wealthy and everyone else is so large and the amassed fortunes so enormous.

An annual wealth tax, in short, is a flexible and logistically (if not politically) straightforward policy tool that both supplements and complements the income tax where the latter falls short. It can successfully target the resources of those at the very top and thereby reconfigure the long-run distribution of income and wealth; it will not only balance the composition of income over time but can also have a strong equalizing effect. The million-dollar question, however, is: at what level should the tax rate be set? In other words, what is the socially optimal value of τ_k? But the question itself begs another: what exactly is meant by "socially optimal"? The next section develops a conceptual toolkit for providing an answer.

3   Social Welfare and Optimal Policy Design

A leading principle of the existing literature on optimal taxation is that tax systems should be designed in such a way as to maximize some measure of social welfare. This is not a controversial point of departure for the theory of optimal policy design and will be adopted in what follows. However, social welfare can of course be defined in more ways than one. In neoclassical economics, which continues to dominate the field of optimal taxation, social welfare is viewed as being mediated

by utility functions, which encode individual preferences over bundles of select goods (for the standard textbook presentation, see Mas-Colell, Whinston, and Green [1995]). The possibly weighted sum of such utilities yields a measure of aggregate social welfare from which closed-form expressions for optimal tax schedules can be derived. Such tax schedules are typically shown to depend on utility-maximizing behavioral responses that tax policies induce with respect to labor supply and investment decisions, coupled with whatever overarching normative constraints the analyst wishes to impose on the optimization exercise.

Whatever the orientation and scope of such normative constraints—be they "progressive" or "regressive"—their substantive import tends to be dwarfed by the distortionary effect that redistributive taxes are presumed to exert on "naturally" occurring resource allocations, which in theory correspond to Pareto-optimal competitive market equilibria (for a classic account, see Atkinson and Stiglitz 2015 [1980]; for recent discussions, see, e.g., Fleurbaey and Maniquet [2018] and Kaplow [2024]). The optimal tax problem is therefore said to involve an ineradicable trade-off between "equity" and "efficiency": taxes allow the government to redistribute resources according to its normative priorities but, by altering economic incentives for work and innovation, they also entail significant deadweight losses through their knock-on effects on job creation and productivity growth.

Because attacking the "anthropological monster" that is *homo economicus* and the attendant fantasy of perfectly competitive markets has become something of a professional sport across the social sciences, this article refrains from reiterating well-established critiques of the neoclassical model at any length (for more extended reviews, see, e.g., Deane and Van Waeyenberge [2020] and Smelser and Swedberg [2005]). Instead, it highlights the following four points:

    a. By privileging the comparison of hypothetical preference relations over select bundles of goods, the utility-based valuation of social welfare is largely oblivious to "what people are able to do and to be" (Nussbaum 2011), that is, to those features of social life that matter beyond commodity-centered "desire-fulfilment," such as functioning fully as a person or participating in the life of the community (Sen 1999). Its overwhelming emphasis on Pareto optimality as a leading criterion for the evaluation of different states of affairs not only ignores that a society can be Pareto-optimal "and still be perfectly disgusting" (Sen 2017, p. 69), it also places severe restrictions on the set of policy designs deemed admissible. Moreover, by according strict analytical priority to those resource allocations that in principle arise from perfectly competitive market equilibria, the neoclassical model remains so far removed from empirical reality that it effectively disqualifies itself from being taken particularly seriously.

    b. Although the neoclassical sum of individual utilities may be subject to some normatively motivated transformation, it remains intensely relaxed about the underlying distribution of social welfare. Even when social welfare W is formalized as a weighted sum of individual utilities u_i in the general form

$$W \equiv \sum_i \psi_i \cdot u_i, \tag{8}$$

with Pareto weights ψ_i representing society's redistributive preferences across individuals i, the objective function still lacks an explicit distributive component that captures the effective social distance between individuals and the social relations of which that distance is an objective expression. The adoption of a non-utilitarian lens within the utility-based framework does nothing to mitigate this: a so-called Rawlsian social welfare function, in which $\psi_i = 0$ for all i except for the least well-off person, displays no real aversion to social inequality. Thus, the utility-based framework lacks the analytical means of capturing relationality and, by extension, of addressing the problem of extreme wealth.

c. The sharp distinction that is made in neoclassical theory between fairness principles—typically (though not invariably) associated with tax progressivity—and the first-order efficiency losses associated with high top tax rates implies a putative trade-off between "equity" and "efficiency." However, historical experience suggests that aggregative and distributive dynamics can readily be reconciled under suitable institutional arrangements, as will be further developed in section 4. The absence of institutions and relations of social power from neoclassical theory is thus not a pragmatic theoretical simplification; it renders real-world empirical processes unintelligible to its analytical approach.

d. As the ongoing climate crisis unfolds, the environmental dimension of social welfare is conspicuous by its absence from the neoclassical model. When it does make a rare appearance, the environment is addressed through the notion of resolving climate externalities via market-based "cap-and-trade" systems (e.g., Dales 1968). However, such commodity-centered thinking does little to effectively integrate real environmental concerns into the concept of social welfare other than through concerns with economic growth—an approach that has been widely criticized by climate scholars for being both ineffective and inequitable (e.g., Böhm, Misoczky, and Moog 2012; Gilbertson and Reyes 2009; Klein 2014; Lohmann 2008; Spash 2010). From a purely empirical perspective, carbon trading, as an offshoot of neoclassical thinking, has fallen dramatically short of rectifying "the biggest market failure the world has seen" that is human-made climate breakdown (Stern 2008)—it may even, according to critics, be part of the problem—and so offers little redemption for the neoclassical paradigm. Thus, just as the weighted aggregation of individual utilities fails to incorporate an explicitly distributive component into the theory of social welfare, the neoclassical construal of environmental property rights similarly fails to account for the destructive environmental impact of extreme wealth.

To move beyond the neoclassical approach, this article advances the view that the study of social welfare should be anchored not in a "thin" economic conception of utility but in a "thick" sociological conception of life chances, which, in broad alignment with the sociological canon, can be defined as *the substantive freedoms by which members of a polity partake in the creation and sharing of social goods* (cf. Giddens 1973, p. 130–131; Weber 1978 [1922], p. 302, 927). This definition encompasses

both realized states of being and the latent chances, inscribed in social structures, to achieve such states of being. As such, it eschews the oft-invoked opposition between "opportunity" and "outcome" and concentrates instead on the social processes in which social actors are enmeshed. Thus, relating the valuation of social welfare to the distribution of life chances transforms the analytical foundations of the study of optimal taxation compared to its currently predominant formulation. The break with the neoclassical tradition entails not merely a change in disciplinary terminology—from "utility" to "life chances"—but also a shift from a vapidly atomistic to a resolutely relational understanding of the social world. This is because life chances are not construed as individual "attributes" but as deriving from multilevel relations that embody a distinctly social, interactive quality. These comprise relations of recognition and reciprocity, conflict and cooperation, power and production.

In this alternative framework, maximizing social welfare entails designing public policies that are optimal with respect to the distribution of life chances. By "distribution" is meant a function that is parameterized both by "level" (or expectation) and "spread" (or variance), such that optimizing the distribution of life chances intrinsically incorporates both aggregative and distributive concerns. Because unequal life chances are not merely determined by rational individual behaviors but by broader institutional complexes that organize social power, this automatically brings an enlarged conception of optimality into our purview compared to the neoclassical approach: an optimal policy design, in this alternative view, is one that is sensitive to the variety of positions occupied within a social space and to the corresponding "classes of conditions of existence" (Bourdieu 2010 [1984], p. 108)

The proposed emphasis on life chances escapes a purely economic (or economistic) perspective by relating social welfare to the composite space of all socially effective resources—from material wealth to symbolic recognition. In a broadly Rawlsian vein, a distinct subset of this resource space may be said to constitute a class of "primary goods" that are needed for any person to function and flourish (Rawls 2001). By extension, this framework readily lends itself to incorporating the environmental dimension of social welfare: even without an explicit conceptualization the environment's intrinsic value, ecological conditions can be construed as a primary good—or indeed a "meta-capability" (Holland 2008)—that directly determines life chances and to which society, haunted as it is by the spectre of human extinction, accords special value.

The proposed framework can easily be formalized as follows. Let life chances be given by a random field $\ell : \Omega \to \mathbb{R}$ on a social space Ω of arbitrary dimension such that $\ell(p)$ captures life chances at position $p \in \Omega$. Let ℓ have expectation $\mu \equiv \mathbb{E}(\ell)$ and variance $\sigma^2 \equiv \mathbb{V}(\ell)$. Furthermore, let $\mathfrak{e}$ denote a measure of the state of the ambient ecosphere, with higher values denoting greater environmental protection. Then, social welfare W can be defined as some function $\varphi(\cdot)$ of μ, σ^2, and $\mathfrak{e}$ encoding society's aggregative, distributive, and environmental priorities:

$$W \equiv \varphi\left(\mu, \sigma^2, \mathfrak{e}\right). \tag{9}$$

This is a flexible model that lends itself to a wide range of specifications. In reasonable cases, $\varphi(\cdot)$ will be positive in μ and $\mathfrak{e}$ and negative in σ^2, though the precise functional form may vary according to the analyst's normative and analytical preferences. That the "level" and "spread" of life chances are operationalized in terms of means and variances is convenient for the present purpose but is not necessary: other, more refined measures of aggregative and distributive dynamics may readily be used. Independent of the exact specification, the underlying setup will form the backbone of the derivation of socially optimal top tax rates, to which the next section is devoted.

4   Socially Optimal Taxation

Let τ_K denote a wealth tax that applies to the holders of extreme wealth, where extreme wealth is defined above some high exemption threshold such that τ_K only applies to, say, dollar centi-millionaires and where K denotes the total taxable wealth of this top wealth bracket. Let $R = \tau_K \cdot K$ denote the revenue generated by the wealth tax. The goal of this section is to derive a closed-form solution to the optimal tax problem that expresses the socially optimal top tax rate, to be denoted by τ_K^*, as a function of theoretically well-defined and empirically estimable parameters. To do so, a helpful benchmark will be the so-called revenue-maximizing tax rate, which will be denoted by τ_K^R.

The Revenue-Maximizing Tax Rate

A well-established result in the extant literature on optimal taxation is that the revenue-maximizing tax rate is given by

$$\tau_K^R = \frac{1}{1 + \varepsilon_K}, \tag{10}$$

where

$$\varepsilon_K \equiv \frac{(1 - \tau_K)}{K} \cdot \frac{\mathrm{d}K}{\mathrm{d}(1 - \tau_K)} \tag{11}$$

is the *elasticity of extreme wealth*, which captures how sensitive the tax base is to the rate at which it is being taxed. More specifically, the elasticity measures the percentage change in taxable wealth that occurs in response to a one percent change in disposable wealth, that is, in the share of wealth kept by individuals after tax. The revenue-maximizing rate, then, is inversely proportional to this key parameter. Conventionally, this "inverse-elasticity rule" is associated with the taxation of labor income but has recently been extended to the taxation of capital income and wealth (Saez and Stantcheva 2018; Saez and Zucman 2019a). Although they vary dramatically from one study to another, existing empirical estimates suggest that the taxable wealth of high-net-worth individuals is sensitive to the tax rate, with ε_K typically being located in the range of $5-15$ (Advani and Tarrant 2021; Saez and Zucman 2019a). Meanwhile, when the elasticity is defined (entirely analogously) with respect to income, it is located in the range of $0.5-0.8$ for the top income percentile, compared to around 0.2 for the rest of the population (Saez, Slemrod,

and Giertz 2012). The reason for the discrepancy in magnitude between income and wealth elasticities is that a 1 percent wealth tax is roughly equivalent to a 20 percent capital income tax when the rate of return is 5 percent.

Taken at face value, these relatively large elasticities lend support to the notion of a so-called "Laffer effect," whereby lowering top tax rates can increase revenues by expanding the tax base. Large elasticities are also viewed as evidence for the efficiency costs of high top tax rates, which in turn are said to justify tax cuts for the rich: lower taxes will not only generate greater tax revenue but also lead to greater wealth creation at the top, which in theory is to everyone's benefit. However, this line of argument tends to obfuscate the fact that observed elasticities typically reflect "sheltering" behaviors whereby the rich shield their resources from taxation through avoidance and evasion strategies such as income shifting, migration, or fiscal expatriation (e.g., Advani and Tarrant 2021; Chetty 2009; Iacono and Smedsvik 2024; Perret 2021; Piketty, Saez, and Stantcheva 2014; Slemrod 1995). The magnitude of such sheltering behaviors depends on the institutional environment in which the holders of extreme wealth operate and can be manipulated by instruments controlled by the government. For instance, opportunities for avoidance and evasion are reduced when (*a*) reliable third-party information trails that track individuals' income and wealth across time, space, and legal forms (like private holding companies) are coupled with (*b*) appropriate legal enforcement mechanisms, which are defined over (*c*) a comprehensive tax base that comprises all asset types. As such, elasticities can in theory be *chosen* by decision-makers (Slemrod and Kopczuk 2002)—which makes the revenue-maximizing rate a function not of some unalterable structural parameter but of political prioritization and effective enforcement.

However, regardless of the precise value of the elasticity parameter and the mechanisms which determine it at any given moment, reducing extreme wealth might be a desirable policy goal in and of itself, above and beyond its impact on the underlying tax base and the associated revenue. As noted by Saez and Zucman (2019b, p. 159), "the point of taxing carbon is not to raise revenue but to reduce carbon emissions"—and the same goes for taxing the rich: the aim is not so much to fund government spending as to reduce extreme wealth and to prevent the social ills which it causes. If, as was argued in section 1, the social problem of extreme wealth does in fact involve democratic, environmental, cultural, and economic externalities and if indeed society considers these externalities to be of sufficient moral and material import, then a wealth tax that destroys top wealth may be justified—even if it fails to collect any revenue. Historical precedents for such a tax regime abound, and not from some obscure peripheral context but from the very heart of the capitalist core in the mid-twentieth century: on both sides of the Atlantic, from the Old to the New World, "it was clear that the [high top marginal tax rates] did not add revenue. They were on the "wrong" side on the Laffer curve. They destroyed income. [. . .] This was not a bug: it was the goal of the policy. The quasi-confiscatory top rates championed [in this historical era] were meant to reduce the income of the super-rich and thereby compress the income distribution" (*ibid*, p. 155–156). There may, in other words, be good reasons why the tax rate that maximizes social welfare exceeds the tax rate that maximizes revenue.

Wealth Taxation

Suppose we introduce a tax reform $d\tau_K$ and are interested in how it impacts social welfare, as defined in equation (9). Then,

$$dW = \frac{\partial \varphi}{\partial \mu} \cdot d\mu + \frac{\partial \varphi}{\partial \sigma^2} \cdot d\sigma^2 + \frac{\partial \varphi}{\partial \mathfrak{e}} \cdot d\mathfrak{e}. \tag{12}$$

The net welfare effect dW induced by $d\tau_K$ is thus a weighted sum of how the tax reform impacts aggregate life chances, inequality in life chances, and the environment. The weights in this weighted sum reflect the marginal value that society accords to each of the three welfare components. The net welfare effect may therefore be written more compactly as

$$dW = \sum_{x \in \{\mu, \sigma^2, \mathfrak{e}\}} w_x \cdot dx, \tag{13}$$

where $w_x \equiv \partial \varphi / \partial x$ denotes the social welfare weight associated with welfare component $x \in \{\mu, \sigma^2, \mathfrak{e}\}$. Economically, the tax reform induces two principal effects, namely

- *a.* a revenue effect dR, because increasing the tax rate mechanically increases tax revenue, and

- *b.* a wealth effect dK, because the reform alters the underlying tax base both directly through the tax change itself and indirectly through the behavioral responses it provokes, such as labor supply or investment decisions, or efforts to avoid or evade taxation.

The change dx in each welfare component $x \in \{\mu, \sigma^2, \mathfrak{e}\}$ is thus a function of dR and dK and may be written as

$$dx = \frac{\partial x}{\partial R} \cdot dR + \frac{\partial x}{\partial K} \cdot dK. \tag{14}$$

In words, this equation states that the change caused by the tax reform in each of the three welfare components is the sum of

- *a.* the marginal effect of tax revenue on each welfare component, multiplied by the size of the tax reform's revenue effect, and

- *b.* the marginal effect of extreme wealth on each welfare component, multiplied by the size of the tax reform's effect on extreme wealth.

Denote these marginal effects by $m_x^R \equiv \partial x / \partial R$ and $m_x^K \equiv \partial x / \partial K$, respectively. Then, the overall welfare effect dW can be rewritten further as

$$dW = \sum_{x \in \{\mu, \sigma^2, \mathfrak{e}\}} w_x \cdot \left(m_x^R \cdot dR + m_x^K \cdot dK \right). \tag{15}$$

Now let the overall welfare effect of additional tax revenue be given by

$$M^R \equiv \sum_x w_x \cdot m_x^R. \tag{16}$$

This quantity will be referred to as the *welfare multiplier effect of public funds* because it captures how much welfare can be "bought" with each additional unit of tax revenue: it sums the welfare effects of using tax money to invest in aggregate life chances, to reduce social inequality, and to protect the environment, weighted by the relative importance accorded to each of these welfare components. The *welfare multiplier effect of extreme wealth* is defined analogously as

$$M^K \equiv \sum_x w_x \cdot m_x^K, \tag{17}$$

and measures the overall welfare gain (or loss) associated with extreme wealth. Together with the elasticity of extreme wealth, these two welfare multiplier effects provide the basis for the following key result.

PROPOSITION: The socially optimal tax rate on extreme wealth is given by

$$\tau_K^* = \frac{1 - \varepsilon_K \cdot M^K / M^R}{1 + \varepsilon_K}. \tag{18}$$

Proof. Note that, by the definition of ε_K in equation (11), we have

$$dK = \frac{-\varepsilon_K \cdot K \cdot d\tau_K}{1 - \tau_K}. \tag{19}$$

Note further that, for $R = \tau_K \cdot K$,

$$dR = K \cdot d\tau_K + \tau_K \cdot dK \tag{20}$$

$$= K \cdot d\tau_K - \tau_K \cdot \frac{\varepsilon_K \cdot K \cdot d\tau_K}{1 - \tau_K}. \tag{21}$$

Recall, as per equation (15), that the welfare effect dW of the tax reform $d\tau_K$ is given by

$$dW = \sum_x w_x \cdot \left(m_x^R \cdot dR + m_x^K \cdot dK \right). \tag{22}$$

Plugging in the expressions for dK and dR, we obtain

$$dW = \sum_x w_x \cdot \left(m_x^R \cdot \left(K \cdot d\tau_K - \tau_K \cdot \frac{\varepsilon_K \cdot K \cdot d\tau_K}{1 - \tau_K} \right) - m_x^K \cdot \frac{\varepsilon_K \cdot K \cdot d\tau_K}{1 - \tau_K} \right) \tag{23}$$

$$= \sum_x w_x \cdot \left(m_x^R \cdot K \cdot d\tau_K - m_x^R \cdot \tau_K \cdot \varepsilon_K \cdot \frac{K \cdot d\tau_K}{1 - \tau_K} - m_x^K \cdot \varepsilon_K \cdot \frac{K \cdot d\tau_K}{1 - \tau_K} \right) \tag{24}$$

$$= \sum_x w_x \cdot \left(m_x^R \cdot (1 - \tau_K) - m_x^R \cdot \tau_K \cdot \varepsilon_K - m_x^K \cdot \varepsilon_K \right) \cdot \frac{K \cdot d\tau_K}{1 - \tau_K} \tag{25}$$

$$= \left(M^R - \tau_K \cdot M^R - \tau_K \cdot \varepsilon_K \cdot M^R - \varepsilon_K \cdot M^K \right) \cdot \frac{K \cdot d\tau_K}{1 - \tau_K}. \tag{26}$$

Social welfare is maximized when $dW = 0$. It follows that

$$M^R - \tau_K \cdot M^R - \tau_K \cdot \varepsilon_K \cdot M^R - \varepsilon_K \cdot M^K = 0. \tag{27}$$

Now rearrange to obtain

$$\tau_K = \frac{M^R - \varepsilon_K \cdot M^K}{M^R + \varepsilon_K \cdot M^R}.$$ (28)

Equation (18) follows immediately. □

Several points are worth noting about equation (18):

a. The socially optimal wealth tax rate depends on the interaction between the elasticity ε_K, the welfare multiplier effect of extreme wealth M^K, and the welfare multiplier effect of public funds M^R.

b. The socially optimal tax rate goes to unity as the elasticity goes to zero. At non-zero values, the effect of ε_K on τ_K^* scales with, and thus depends on, the welfare multiplier ratio M^K/M^R. If, as has been argued above, extreme wealth causes a welfare loss, then the socially optimal tax rate need not monotonically decrease with the elasticity.

c. All else being equal, the socially optimal tax rate increases if extreme wealth has a negative welfare effect and decreases if extreme wealth has a positive welfare effect.

d. The socially optimal tax rate reduces to the revenue-maximizing rate when $M^K \to 0$ or when M^R dominates M^K such that the welfare multiplier ratio $M^K/M^R \to 0$. In other words, when the welfare effect of extreme wealth is close to zero or is dwarfed by the positive welfare effect of additional tax revenue, maximizing public funds should be the primary policy goal.

e. The socially optimal tax rate is zero only when $M^R = \varepsilon_K \cdot M^K$ exactly or when $\varepsilon_K \to \infty$ and $M^K/M^R = 0$. In other words, τ_K^* fails to be positive only under relatively extreme assumptions.

f. The socially optimal tax rate is undefined under the extreme condition that additional tax revenue has a zero welfare effect.

More generally, the reader should note that equation (18) imposes no strict assumptions about the given parameters; it merely provides a formal expression that relates the socially optimal wealth tax rate τ_K^* to the wealth elasticity ε_K, the multiplier effect of extreme wealth M^K, and the multiplier effect of public funds M^R. However, to get a better sense of the relative magnitudes at stake, Table 2 compares τ_K^* to the revenue-maximizing tax rate τ_K^R for different values of ε_K and the welfare multiplier ratio M^K/M^R. In rough alignment with the extant literature, an elasticity of 5 is labeled "low," whereas an elasticity of 15 is labeled "high." Meanwhile, the welfare multiplier ratio can be interpreted as the relative importance of increasing the wealth K of the top wealth bracket compared to increasing tax revenue R to spend on social welfare. In nearly all realistic scenarios, the absolute magnitude of the multiplier effect of public funds is likely to be greater than that of extreme wealth so that $|M^K/M^R| < 1$. Intuitively, this is because the marginal value of giving an extra

Table 2: Comparing optimal wealth tax rates.

Scenario	τ_K^R	τ_K^*
Low elasticity of extreme wealth ($\varepsilon_K = 5$)	17%	
Negative welfare multiplier ratio ($M^K/M^R = -0.1$)		25%
Zero welfare multiplier ratio ($M^K/M^R = 0$)		17%
Positive welfare multiplier ratio ($M^K/M^R = 0.1$)		8%
Moderate elasticity of extreme wealth ($\varepsilon_K = 10$)	9%	
Negative welfare multiplier ratio ($M^K/M^R = -0.1$)		18%
Zero welfare multiplier ratio ($M^K/M^R = 0$)		9%
Positive welfare multiplier ratio ($M^K/M^R = 0.1$)		0%
High elasticity of extreme wealth ($\varepsilon_K = 15$)	6%	
Negative welfare multiplier ratio ($M^K/M^R = -0.1$)		16%
Zero welfare multiplier ratio ($M^K/M^R = 0$)		6%
Positive welfare multiplier ratio ($M^K/M^R = 0.1$)		−3%

Notes: The table compares the revenue-maximizing tax rate τ_K^R to the socially optimal wealth tax rate τ_K^* for different values of the wealth elasticity ε_K and the welfare multiplier ratio M^K/M^R. The wealth elasticity ε_K is defined as the percentage change in top wealth K that occurs in response to a one percent increase in the net-of-tax rate $1 - \tau_K$. The welfare multiplier ratio M^K/M^R reflects the relative importance of increasing the wealth K of the top wealth bracket compared to increasing tax revenue R to spend on social welfare. All tax rates are rounded to the nearest integer value.

dollar to a starved public service—such as an understaffed care home or an underfunded education system—is much greater than that of giving an extra dollar to a billionaire who already has more money than they know what to do with. The table shows that, for realistic values of the elasticity (meaning values that are compatible with a large body of empirical evidence), the revenue-maximizing rate τ_K^R ranges from 6 percent to 17 percent. If extreme wealth results in the loss of welfare, then the socially optimal tax rate may exceed τ_K^R by a substantial margin and ranges from 16 percent to 25 percent. Even if extreme wealth has a positive welfare multiplier effect, for instance through the much-touted channels of entrepreneurial innovation, the socially optimal tax rate continues to be positive—except for the scenario in which the beneficial impact of extreme wealth combines with a high elasticity, an extreme instantiation of which would lead to the introduction of negative wealth taxation. In other words, if extreme wealth is socially beneficial and the tax base is highly sensitive to wealth taxation, then the government should redistribute wealth to the ultra-wealthy.

Figure 3 visualizes how the socially optimal tax rate varies across a wider range of welfare multiplier ratios and elasticities. However, in accordance with the line of argument developed above, this figure focuses on scenarios in which $M^K \leq 0$. It shows that even for very large values of the elasticity, the socially optimal wealth tax is positive and will typically exceed 5 percent. For small to moderate values of ε_K, τ_K^* typically lies upward of 10 percent.
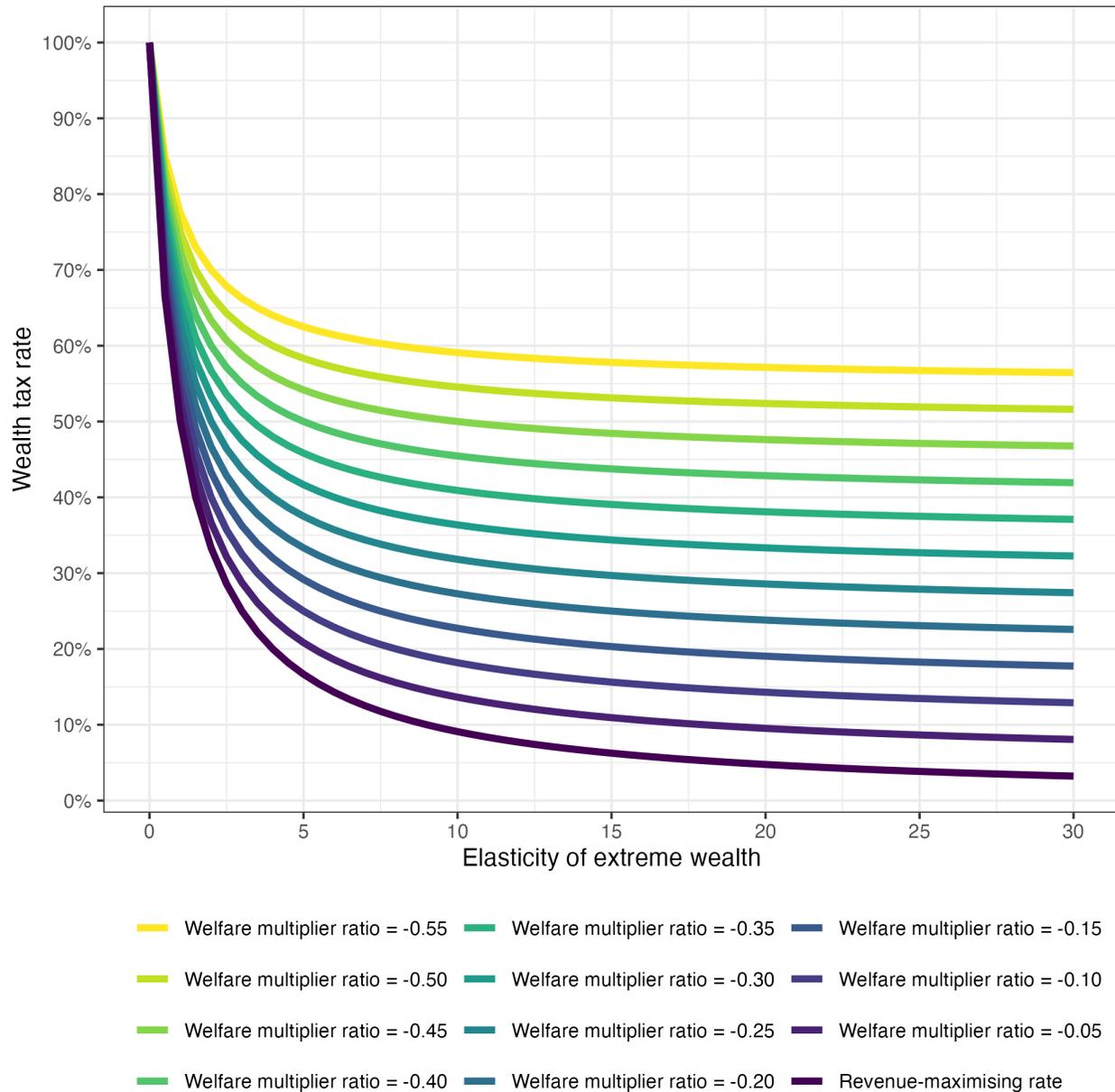
Figure 3: Socially optimal wealth tax rates as a function of the elasticity of extreme wealth for different welfare multiplier ratios M^K/M^R. The wealth elasticity ε_K is defined as the percentage change in top wealth K that occurs in response to a one percent increase in the net-of-tax rate $1 - \tau_K$. The welfare multiplier ratio M^K/M^R reflects the relative importance of increasing the wealth K of the top wealth bracket compared to increasing tax revenue R to spend on social welfare.

Income Taxation

Although the above discussion has focused on the taxation of extreme wealth, equation (18) naturally extends to the closely related problem of extreme income. Replacing taxable top wealth K with taxable top income Y, the socially optimal top

income tax rate is given by

$$\tau_Y^* = \frac{1 - \varepsilon_Y \cdot M^Y / M^R}{1 + \varepsilon_Y},$$

(29)

where ε_Y, M^R, and M^Y are defined analogously to the definitions in equations (11), (16), and (17), only this time with respect to income. Figure 4 compares different income tax rates for different values of ε_Y and the corresponding welfare multiplier ratio M^Y / M^R. The displayed range of ε_Y corresponds to the range of plausible empirical estimates for the elasticity of income (cf. Saez et al. 2012). This figure shows that even for very large values of the elasticity, the socially optimal top income tax will exceed 50 percent. In more realistic scenarios where $\varepsilon_Y \approx 0.5$ or less, τ_Y^* consistently exceeds 65 percent. If the elasticity of top income is brought in line with the elasticity observed for people outside the top percentile of the income distribution such that $\varepsilon_Y < 0.3$, then τ_Y^* approaches the confiscatory rate.

Comparison with Previous Work

For reasons that were detailed in section 3, the ideas presented here differ both formally and substantively from those that are found in previous work on this topic. A few remarks on the extant literature are nonetheless in order. The most comparable existing formulae for some socially optimal top tax rate τ^* are those that express τ^* in terms of

> *a*. parameters for social preferences, that is, social welfare weights (cf. Saez and Stantcheva 2016);
>
> *b*. parameters for behavioral responses to taxation, that is, elasticities; and
>
> *c*. parameters for the shape of the resource distribution, that is, the extent of pre-tax inequality (cf. Saez 2001).

Piketty and Saez (2013) provide a review of such models in the context of labor income taxation and derive an optimal top tax rate given by

$$\tau^* = \frac{1 - w}{1 - w + \alpha \cdot \varepsilon},$$

(30)

where w is the average value that society accords to increasing the consumption of someone in the top income bracket, α is a tail parameter of the income distribution, and ε is the average elasticity of income with respect to the net-of-tax-rate among the highest earners (*ibid*, p. 423). Similar expressions have also been derived for the optimal taxation of capital income (Saez and Stantcheva 2018) but not of wealth (cf. Guvenen et al. 2023; Saez and Zucman 2019a). Although certain parallels can of course be drawn between such expressions and equation (18), the underlying approach of this article differs in its conceptual emphasis on the broader social and environmental consequences of extreme wealth. Unlike in previous work, this emphasis is articulated "macroscopically" and not on the basis of individual utility functions; it allows for distributive and environmental
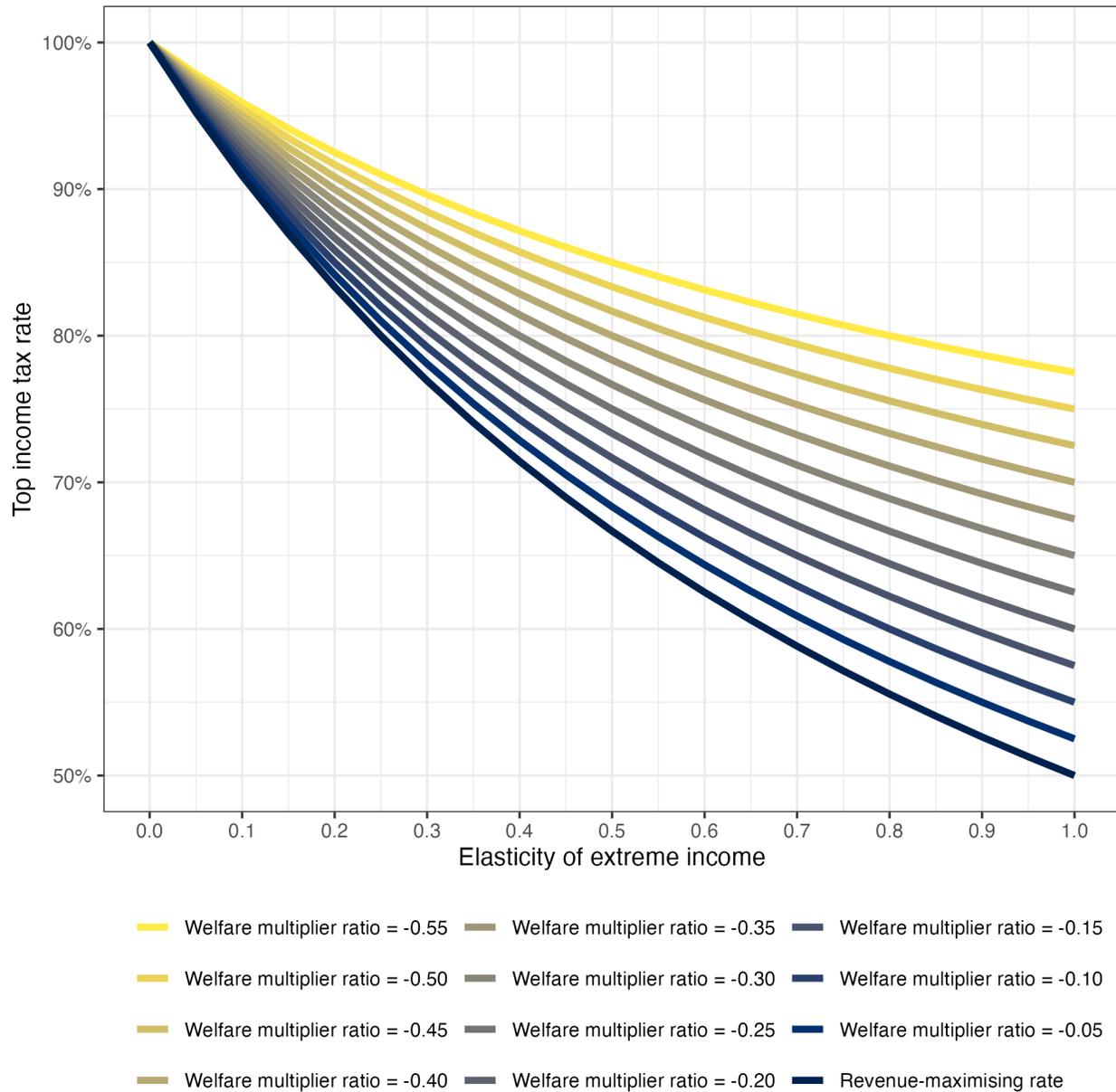
Figure 4: Socially optimal top income tax rates as a function of the elasticity of extreme income for different welfare multiplier ratios M^Y/M^R. The income elasticity ε_Y is defined as the percentage change in top income Y that occurs in response to a one percent increase in the net-of-tax rate $1 - \tau_Y$. The welfare multiplier ratio M^Y/M^R reflects the relative importance of increasing the income Y of the top income bracket compared to increasing tax revenue R to spend on social welfare.

as well as aggregative concerns to be explicitly integrated into the very definition of social welfare—all while obviating potentially inconsistent welfare comparisons associated with modifications of the standard utilitarian schema (cf. Sher 2024).

Concerns and Critiques

Although there is growing recognition across the public sphere that economic inequality and the attendant concentration of social power is at the heart of society's greatest challenges, from democratic decline to climate breakdown, the targeted taxation of extreme wealth is not without its critics—even among those who are sympathetic to its underlying rationale. Notwithstanding quasi-philosophical debates concerned with concepts of desert and merit—the idea that the ultra-rich are ultra-rich due to their hard work and entrepreneurial efforts, and are therefore entirely deserving of their accumulated fortunes—the leading argument in favor of the lenient taxation of extreme wealth tends to derive its perceived legitimacy on presumed efficiency grounds. Not only do high top taxes quell productive economic activity, the argument goes, but by providing incentives for greater labor supply and investment, low top taxes have large positive knock-on effects across the economy.

This line of argument tends to neglect the wide range of policy tools by which society's aggregative and distributive priorities can be rendered complementary. The canonical historical example is the social-democratic model of collective bargaining under which wage negotiators are impelled to internalize both price and employment externalities across types of workers. Positive but restrained wage growth that is centrally coordinated through pattern bargaining—where unions in sectors exposed to foreign competition set the norm for wage development in the rest of the economy—encourages investment, keeps inflation low and employment high, and secures a compressed income distribution with elevated wage floors. The relatively high cost of low-skilled labor places competitive pressures on less efficient firms to rationalize their production. Excess profits are absorbed by the state through progressive taxation, shaping capital allocation while funding high-quality public services. At the top of the distribution, wage restraint ensures normal rates of return and allows more efficient firms to expand, mopping up additional labor supply and fuelling productivity growth in the process (e.g., Barth, Moene, and Willumsen 2014; Bhuller et al. 2022; Dale-Olsen 2021; Dølvik et al. 2014; Pontusson 1992).

Neither theoretically nor empirically is extreme income or wealth concentration a prerequisite for the efficient allocation of resources under the social-democratic model; in contrast, the model's historical success, notably in Scandinavia, hinges on a durably institutionalized mode of collective action that actively minimizes inequality and flexibly manages changing patterns of conflict and cooperation (cf. Engelstad and Hagelund 2015; Falkum 2015; Mjøset 2011; Moene and Wallerstein 2006; Östberg 2024). However, the Scandinavian countries' success in regulating (labour) income inequality stands in stark contrast to their highly unequal wealth distributions, which have resulted from historically low taxes on capital coupled with the absence of a wealth-related analog of the wage formation model described above (Beckert 2024; Ganghof 2007; Hansen and Toft 2021; Pfeffer and Waitkus 2021). Nonetheless, the template that this model provides for compressing the distribution of income lends itself to further extension into the realm of wealth: because annual wealth taxes favor first-generation entrepreneurs with higher rates of return relative to unproductive inheritors or older wealth hoarders, wealth

taxation can be deployed as a vector of "creative destruction" that reallocates resources from unproductive to productive economic actors (Guvenen et al. 2019). Where above-market asset returns do not result from higher productivity but from market power and rent-seeking, wealth taxation can be complemented by a well-designed capital gains tax (Adam et al. 2024; Advani, Lonsdale, and Summers 2024; Littlewood and Elliffe 2017).

The first leg of the efficiency-based critique—that high top tax rates inevitably carry large efficiency losses—thus falls short of credibly challenging the case for targeting extreme wealth. When tax-related efficiency costs do occur, they can readily be offset if the corresponding revenue is spent on public goods that are complementary to the productivity of capital and labor, such as child and elderly care, transportation, material and juridical infrastructure, and high-quality education (Kleven 2014). The second leg of the same critique—that low top tax rates carry large efficiency gains—fares little better. Empirically, tax cuts for the rich are not associated with job creation or other positive economic indicators but instead with anaemic aggregate demand and deepening inequality (e.g., Bivens and Banerjee 2022; Hope and Limberg 2022; Zidar 2019).

A related line of argument posits that wealth taxation causes significant liquidity problems for those upon whom the tax is levied. This may be true for holders of low-yielding assets such as farmers or small- or medium-sized business owners (Loutzenhiser and Mann 2021), but not for holders of extreme wealth, who typically have easy access to liquidity—for instance, through robustly collateralized bank loans. A simple solution, which has been pre-emptively incorporated in this article's layout, is thus to levy the wealth tax above a high exemption threshold. Such a design ensures that the tax effectively targets the upper fraction of the capitalist class and not cash-poor workers, business owners, or pensioners (cf. McCaffery 2017; Saez and Zucman 2019b; Zucman 2024).

A different concern is that the economic value of the targeted wealth stock does not always lend itself to easy measurement. To prevent avoidance strategies related to portfolio composition, a successful wealth tax is premised on a method of wealth valuation that applies with reasonable precision across a wide range of asset classes, from high-end artworks to vintage vehicles. However, as mentioned earlier, the most decisive economic variable for the ultra-rich segments of the capitalist class is the ownership of corporate stock. As noted by Piketty et al. (2023, p. 579), large equity stakes in publicly traded corporations are often mandatorily reported to tax authorities, which makes both the valuation of wealth and the corresponding tax burden easily measurable. For wealth held in private corporations, where direct market valuation is more elusive, a wealth tax can instead be thought of as a transfer of shares from private to public hands: "a 1 per cent wealth tax means that the owner has to give to the government 1 per cent of her shares in each business she owns" (*ibid*; for more extended discussions, see also Saez and Zucman, 2019a and Zucman [2024]).

Finally, there is the challenge of coordinated tax enforcement within and between national jurisdictions. Domestic efforts to tax extreme wealth are undermined by incentives to migrate across regions and borders, and such incentives are amplified by international tax competition (Alstadsæter et al. 2024). But while the tax-driven mobility of individuals, corporations, and their assets constitutes a significant

obstacle to the taxation of extreme wealth, it is far from insuperable. On the one hand, given the enduring importance of place-specific networks, the risk of migration responses to taxation is commonly exaggerated (Advani, Burgherr, and Summers 2025; Young 2017; Young and Lurie 2025; Young et al. 2016). On the other hand, incentives for such migration can be minimized through at least three policy channels:

  a. an expatriation (or "exit") tax, already operant in embryonic form in countries such as Norway and the United States, which follows high-net-worth individuals and their businesses even if they renounce their national citizenship or residency status;

  b. a world financial registry that facilitates cross-country financial information exchange to combat systematic income and wealth concealment (Zucman 2014);

  c. a multilateral tax treaty that institutes an internationally coordinated minimum tax on the ultra-wealthy (Zucman 2024).

Although all of these channels come with challenges of their own, they offer valuable points of reference in ongoing debates surrounding the nexus that connects the social problem of extreme wealth and the political economy of optimal taxation.

5   Concluding Discussion

Recent years have witnessed renewed international interest in the progressive taxation of both income and wealth as a means of combatting the increasingly concentrated private ownership of society's resources and the downstream consequences thereof (e.g., Advani, Chamberlain, and Summers 2020; Advani and Summers 2022; Piketty 2014, 2020; Piketty et al. 2023; Saez and Zucman 2019; Zucman 2024). However, academic and policy debates alike are marked by fierce disagreement as to what an optimal tax on the ultra-rich might look like in practice. This article has sought to contribute to these debates by recasting the theory of social welfare and optimal policy design through a sociological lens that pays special heed to the distribution of life chances and to the state of the ecosphere. On this basis, it has offered a closed-form solution to the optimal tax problem that expresses the socially optimal top tax rate as a function of three central parameters, all of which lend themselves to both theoretical specification and empirical estimation: the elasticity of extreme wealth, the welfare multiplier effect of extreme wealth, and the welfare multiplier effect of public funds. The article has also offered an extensive discussion of how these parameters can be interpreted, the range of empirically realistic values they may take, and the policy challenges which they present.

The presented analysis has abstracted from various technicalities, which, at the cost of concision and accessibility, would have rendered it more complete. Its focus, for instance, has been on a linear top tax rate derived under a simplified model of income and wealth dynamics that does not explicitly address the time horizon over which the tax is meant to erode extreme wealth. The chosen approach has substantial expositional advantages which, in the author's view, outweigh the often

minimal policy-relevant insights offered by more complex mathematical models. Despite their greater formal precision, the latter often turn out to be substantively equivalent to their less convoluted counterparts (see, e.g., Saez and Stantcheva 2018). On the other hand, a more refined treatment of the stochastic distribution of top income and wealth makes it possible to quantify the long-run distributional impact of any chosen tax schedule (Benhabib and Bisin 2018; Blanchet 2023)—a delicate task from which the present article has refrained. Instead it has sought to furnish the political economy of optimal taxation with a new analytical foundation. Applying its proposed framework to the joint analysis of the "ideal triptych" (Piketty et al. 2023) of progressive income, wealth, and inheritance taxation as well as other redistributive policies is a natural avenue for future research.

Though empirically anchored, the article has—for lack of space—offered little more than a cursory treatment of the international tax system and its distributional profile. A more detailed comparison of different countries and their overlapping "inequality regimes" would undoubtedly have enriched the analysis, as would a historical account of different countries' experiences with wealth taxes and the set of institutional factors that have led to their near-universal repeal in recent years (see Perret 2021). Instead, the article has sought to incorporate such empirical insights into a condensed line of argument, which emphasizes that the key tax parameters introduced above are socially mediated: they can be made, unmade, or remade through strategically targeted, well-designed policy instruments. In short, if democracy can be defined as the social form through which a people, by way of purposive collective action, organizes its own life chances, then designing tax policy should be an exercise in democratic politics.

References

Aaberge, Rolf, Magne Mogstad, Ola L. Vestad, and Arnstein Vestre. 2021. *Økonomisk ulikhet i Norge i det 21. århundre* [*Economic Inequality in Norway in the 21st Century*]. Statistics Norway Report 2021/33.

Aaberge, Rolf, Jørgen Heibø Modalsli, and Ola Lotherington Vestad. 2020. *Ulikheten—betydelig større enn statistikken viser* [*Inequality—Significantly Greater Than Shown by Official Statistics*]. Statistics Norway Report 2020/13.

Adam, Stuart, Arun Advani, Helen Miller, and Andy Summers. 2024. *Capital Gains Tax Reform*. IFS Report R336.

Advani, Arun and Andy Summers. 2022. *Measuring and Taxing Top Incomes and Wealth*. IFS Deaton Review of Inequalities.

Advani, Arun and Andy Summers. 2020. *Capital Gains and UK Inequality: New Evidence from Tax Microdata*. CAGE Policy Briefing 19.

Advani, Arun and Hannah Tarrant. 2021. "Behavioural Responses to a Wealth Tax." *Fiscal Studies* 42(3-4):509–37. https://doi.org/10.1111/1475-5890.12283

Advani, Arun, David Burgherr, and Andrew Summers. 2025. "Taxation and Migration by the Super-Rich." CESifo Working Paper No. 11870.

Advani, Arun, Andrew Lonsdale, and Andy Summers. 2024. *Reforming Capital Gains Tax: Revenue and Distributional Effects*. Centre for the Analysis of Taxation Policy Report.

Advani, Arun, Emma Chamberlain, and Andy Summers. 2020. *A Wealth Tax for the UK*. Wealth Tax Commission Final Report.

Alstadsæter, Annette, Sarah Godar, Panayiotis Nicolaides, and Gabriel Zucman. 2024. *Global Tax Evasion Report 2024*. EU Tax Observatory.

Alstadsæter, Annette, Niels Johannesen, Ségal Le Guern Herry, and Gabriel Zucman. 2022. "Tax Evasion and Tax Avoidance." *Journal of Public Economics* 206:104587. https://doi.org/10.1016/j.jpubeco.2021.104587

Alstadsæter, Annette, Niels Johannesen, and Gabriel Zucman. 2019. "Tax Evasion and Inequality." *American Economic Review* 109(6):2073–103. https://doi.org/10.1257/aer.20172043

Alstadsæter, Annette, Niels Johannesen, and Gabriel Zucman. 2018. "Who Owns the Wealth in Tax Havens? Macro Evidence and Implications for Global Inequality." *Journal of Public Economics* 162:89–100. https://doi.org/10.1016/j.jpubeco.2018.01.008

Atkinson, Anthony B. and Joseph E. Stiglitz. 2015 [1980]. *Lectures on Public Economics*. Updated edition. Princeton University Press.

Atkinson, Anthony B. and Joseph E. Stiglitz. 1976. "The Design of Tax Structure: Direct Versus Indirect Taxation." *Journal of Public Economics* 6(1-2):55–75. https://doi.org/10.1016/0047-2727(76)90041-4

Bivens, Josh and Asha Banerjee. 2022. *Inequality's Drag on Aggregate Demand. The Macroeconomic and Fiscal Effects of Rising Income Shares of the Rich*. Economic Policy Institute.

Barth, Erling, Karl O. Moene, and Fredrik Willumsen. 2014. "The Scandinavian Model—An Interpretation." *Journal of Public Economics* 117:60–72. https://doi.org/10.1016/j.jpubeco.2014.04.001

Beckert, Jens. "Varieties of Wealth: Toward a Comparative Sociology of Wealth Inequality." *Socio-Economic Review* 22(2):475–99. https://doi.org/10.1093/ser/mwad068

Benhabib, Jess and Alberto Bisin. 2018. "Skewed Wealth Distributions: Theory and Empirics." *Journal of Economic Literature* 56(4):1261–91. https://doi.org/10.1257/jel.20161390

Bhuller, Manudeep, Karl Ove Moene, Magne Mogstad, and Ola L. Vestad. 2022. "Facts and Fantasies about Wage Setting and Collective Bargaining." *Journal of Economic Perspectives* 36(4):29–52. https://www.jstor.org/stable/27171129

Blanchet, Thomas. 2023. "Uncovering the Dynamics of the Wealth Distribution." World Inequality Lab Working Paper No. 2023/02.

Blanchet, Thomas, Lucas Chancel, and Amory Gethin. 2022. "Why Is Europe More Equal Than the United States?" *American Economic Journal: Applied Economics* 14(4):480–518. https://doi.org/10.1257/app.20200703

Bourdieu, Pierre. 2010 [1984]. *Distinction: A Social Critique of the Judgement of Taste*. Routledge.

Böhm, Steffen, Maria Ceci Misoczky, and Sandra Moog. "Greening Capitalism? A Marxist Critique of Carbon Markets." *Organization Studies* 33(11):1617–38. https://doi.org/10.1177/017084061246332

Braun, Rudolf. 1975. "Taxation, Sociopolitical Structure, and State-Building: Great Britain and Brandenburg-Prussia." Pp. 243–327 in *The Formation of National States in Western Europe*, edited by Charles Tilly. Princeton University Press.

Brewer, John. 1989. *The Sinews of Power: War, Money and the English State, 1688–1783*. Harvard University Press.

Bruil, Arjan, Céline van Essen, Wouter Leenders, Arjan Lejour, Jan Möhlmann, and Simon Rabaté. 2025. "Inequality and Redistribution in the Netherlands." Unpublished working paper available at https://wouterleenders.eu/Bruiletal2025WP.pdf.

Campbell, Cole, Jacob A. Robbins, and Sam Wylde. 2025. "The Distribution of Capital Gains in the United States." Working paper. Washington Center for Equitable Growth.

Campbell, John L. 2005. "Fiscal Sociology in an Age of Globalization: Comparing Tax Regimes in Advanced Capitalist Countries." Pp. 391–418 in *The Economic Sociology of Capitalism*, edited by Victor Nee and Richard Swedberg. Princeton University Press.

Campbell, John L. 1993. "The State and Fiscal Sociology." *Annual Review of Sociology* 19(1):163–85. https://doi.org/10.1146/annurev.so.19.080193.001115

Chamley, Christophe. 1986. "Optimal Taxation of Capital Income in General Equilibrium with Infinite Lives." *Econometrica* 54(3):607–22. https://doi.org/10.2307/1911310

Chancel, Lucas. 2022. "Global Carbon Inequality over 1990–2019." *Nature Sustainability* 5:931–38. https://doi.org/10.1038/s41893-022-00955-z

Chancel, Lucas. 2020. *Unsustainable Inequalities: Social Justice and the Environment*. Harvard University Press. https://doi.org/10.2307/j.ctv2jfvcd3

Chancel, Lucas, Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, eds. 2022. *World Inequality Report 2022*. World Inequality Lab.

Chetty, Raj. 2009. "Is the Taxable Income Elasticity Sufficient to Calculate Deadweight Loss? The Implications of Evasion and Avoidance." *American Economic Journal: Economic Policy* 1(2):31–52. https://doi.org/10.1257/pol.1.2.31

Corlett, Adam, Arun Advani, and Andy Summers. 2020. *Who Gains? The Importance of Accounting for Capital Gains*. Resolution Foundation Report.

Dale-Olsen, Harald. 2021. "Do Unions Contribute to Creative Destruction?" *PLoS ONE* 16(12):e0261212. https://doi.org/10.1371/journal.pone.0261212

Dales, John. 1968. *Pollution, Property and Prices. An Essay in Policy-Making and Economics*. University of Toronto Press.

Deane, Kevin and Elisa Van Waeyenberge, eds. 2020. *Recharting the History of Economic Thought*. Red Globe Press.

Domhoff, G. William. 2022. *Who Rules America? The Corporate Rich, White Nationalist Republicans, and Inclusionary Democrats in the 2020s*. Routledge.

Dølvik, Jon E., Tone Fløtten, Jon M. Hippe, and Bård Jordfald. 2014. *The Nordic Model Towards 2030. A New Chapter?* NordMod2030. Fafo report.

Elsässer, Lea and Armin Schäfer. 2023. "Political Inequality in Rich Democracies." *Annual Review of Political Science* 26(1):469–87. https://doi.org/10.1146/annurev-polisci-052521-094617

Engelstad, Fredrik and Anniken Hagelund, eds. 2015. *Cooperation and Conflict the Nordic Way. Work, Welfare, and Institutional Change in Scandinavia*. De Gruyter.

Falkum, Eivind. 2015. "Institutionalization and Dynamic Change of Institutions—The Basic Agreement and Tripartite Structures in Norway." Pp. 56–76 in *Cooperation and Conflict the Nordic Way. Work, Welfare, and Institutional Change in Scandinavia*, edited by Fredrik Engelstad and Anniken Hagelund. De Gruyter.

Finanspolitiska rådet. 2024. *Economic Inequality in Sweden. An Overview of Facts and Future Challenges*. Report 2024/1.

Fleurbaey, Marc and François Maniquet. 2018. "Optimal Income Taxation Theory and Principles of Fairness." *Journal of Economic Literature* 56(3):1029–79. https://doi.org/10.1257/jel.20171238

Ganghof, Steffen. 2007. "The Political Economy of High Income Taxation: Capital Taxation, Path Dependence, and Political Institutions in Denmark." *Comparative Political Studies* 40(9):1059–84. https://doi.org/10.1177/0010414006288973

Ganghof, Steffen. 2006. "Tax Mixes and the Size of the Welfare State: Causal Mechanisms and Policy Implications." *Journal of European Social Policy* 16(4):360–73. https://doi.org/10.1177/0958928706068274

Giddens, Anthony. 1973. *The Class Structure of the Advanced Societies*. Hutchinson.

Gilbertson, Tamra and Oscar Reyes. 2009. "Carbon Trading. How It Works and Why It Fails." *Critical Currents* 7. Dag Hammarskjöld Foundation. https://doi.org/10.3898/136266210792307050

Gilens, Martin and Benjamin I. Page. 2014. "Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens." *Perspectives on Politics* 12(3):564–81. https://doi.org/10.1017/S1537592714001595

Guvenen, Fatih, Gueorgui Kambourov, Burhan Kuruscu, Sergio Ocampo, and Daphne Chen. 2023. *Use It Or Lose It: Efficiency and Redistributional Effects of Wealth Taxation*. The Quarterly Journal of Economics. 138(2):835–94. https://doi.org/10.1093/qje/qjac047

Guyton, John, Patrick Langetieg, Daniel Reck, Max Risch, and Gabriel Zucman. 2021. "Tax Evasion at the Top of the Income Distribution: Theory and Evidence." NBER Working Paper No. 28542.

Hansen, Marianne N. and Maren Toft. 2021. "Wealth Accumulation and Opportunity Hoarding: Class-Origin Wealth Gaps over a Quarter of a Century in a Scandinavian Country." *American Sociological Review* 86(4):603–38. https://doi.org/10.1177/00031224211020012

Holland, Breena. "Justice and the Environment in Nussbaum's 'Capabilities Approach': Why Sustainable Ecological Capacity Is a Meta-Capability." *Political Research Quarterly* 61(2):319–32. https://doi.org/10.1177/1065912907306471

Hope, David and Julian Limberg. 2022. "The Economic Consequences of Major Tax Cuts for the Rich." *Socio-Economic Review* 20(2):539–59. https://doi.org/10.1093/ser/mwab061

Hourani, Diana and Sarah Perret. 2025. "Taxing Capital Gains. Country Experiences and Challenges." OECD Taxation Working Papers No. 72.

Hourani, Diana, Bethany Millar-Powell, Sarah Perret, and Antonia Ramm. 2023. "The Taxation of Labour Vs. Capital Income. A Focus on High Earners." OECD Taxation Working Papers No. 65.

Iacono, Roberto and Bård Smedsvik. 2024. "Behavioral Responses to Wealth Taxation: Evidence from a Norwegian Reform." Cesifo Working Paper No. 11335.

Judd, Kenneth L. 1985. "Redistributive Taxation in a Simple Perfect Foresight Model." *Journal of Public Economics* 28(1):59–83. https://doi.org/10.1016/0047-2727(85)90020-9

Kaplow, Louis. 2024. "Optimal Income Taxation." *Journal of Economic Literature* 62(2):637–738. https://doi.org/10.3386/w30199

Kato, Junko. 2003. *Regressive Taxation and the Welfare State. Path Dependence and Policy Diffusion*. Cambridge University Press. https://doi.org/10.1017/CBO9780511510212

Kawashi, Ichiro and S.V. Subramanian. 2014. "Income Inequality." Pp. 126–52 in *Social Epidemiology*, edited by Lisa F. Berkman, Ichirō Kawachi, and M. Maria Glymour. Oxford University Press.

Klein, Naomi. 2014. *This Changes Everything: Capitalism Vs. the Climate*. Simon & Schuster.

Kleven, Henrik J. 2014. "How Can Scandinavians Tax So Much?" *Journal of Economic Perspectives* 28(4):77–98. https://doi.org/10.1257/jep.28.4.77

Littlewood, Michael and Craig Elliffe, eds. 2017. *Capital Gains Taxation: A Comparative Analysis of Key Issues*. Edward Elgar Publishing.

Lohmann, Larry. 2008. "Carbon Trading, Climate Justice and the Production of Ignorance: Ten Examples." *Development* 51(3):359–65. https://doi.org/10.1057/dev.2008.27

Loutzenhiser, Glen and Elizabeth Mann. 2021. "Liquidity Issues: Solutions for the Asset Rich, Cash Poor." *Fiscal Studies* 42(3-4):651–75. https://doi.org/10.1111/1475-5890.12281

Martin, Isaac W. 2020. "The Political Sociology of Public Finance and the Fiscal Sociology of Politics." Pp. 484–512 in *The New Handbook of Political Sociology*, edited by T. Janoski, C. de Leon, J. Misra, and I. W. Martin. Cambridge University Press.

Martin, Isaac W. and Monica Prasad. 2014. "Taxes and Fiscal Sociology." *Annual Review of Sociology* 40(1):331–45. https://doi.org/10.1146/annurev-soc-071913-043229

Martin, Isaac W., Ajay K. Mehrotra, and Monica Prasad, eds. 2009a. *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective*. Cambridge University Press.

Martin, Isaac W., Ajay K. Mehrotra, and Monica Prasad. 2009b. "The Thunder of History: The Origins and Development of the New Fiscal Sociology." Pp. xi–xiv in *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective*, edited by Isaac W. Martin, Ajay K. Mehrotra, and Monica Prasad. Cambridge University Press.

Mas-Colell, Andreu, Michael Dennis Whinston, and Jerry R. Green. 1995. *Microeconomic Theory*. Oxford University Press.

McCaffery, Edward J. 2017. "Taxing Wealth Seriously." *Tax Law Review* 70:305–76.

Melita, Davide, Guillermo B. Willis, and Rosa Rodríguez-Bailón. 2021. "Economic Inequality Increases Status Anxiety Through Perceived Contextual Competitiveness." *Frontiers in Psychology* 12:637365. https://doi.org/10.3389/fpsyg.2021.637365

Mirrlees, James A. 1971. "An Exploration in the Theory of Optimum Income Taxation." *The Review of Economic Studies* 38(2):175–208. https://doi.org/10.2307/2296779

Mjøset, Lars. 2011. *The Nordic Varieties of Capitalism*. Emerald Group Publishing.

Moene, Karl Ove and Wallerstein, Michael. 2006. "Social Democracy as a Development Strategy." Pp. 148–68 in *Globalization and Egalitarian Redistribution*, edited by Pranab Bardhan, Samuel Bowles, and Michael Wallerstein. Princeton University Press.

New Economics Foundation. 2025. *Exploring an Extreme Wealth Line*. Report by New Economics Foundation, in partnership with Patriotic Millionaires International.

Nussbaum, Martha C. 2011. *Creating Capabilities: The Human Development Approach*. Harvard University Press. https://doi.org/10.4159/harvard.9780674061200

Offer, Avner. 2022. *Understanding the Private-Public Divide: Markets, Governments, and Time Horizons*. Cambridge University Press. https://doi.org/10.1017/9781108866415

Östberg, Kjell. 2024. *The Rise and Fall of Swedish Social Democracy*. Verso. https://doi.org/10.33458/uidergisi.1734745

Oswald, Yannick, Anne Owen, and Julia K. Steinberger. 2020. "Large Inequality in International and Intranational Energy Footprints between Income Groups and across Consumption Categories." *Nature Energy* 5(3):231–9. https://doi.org/10.1038/s41560-020-0579-8

Perret, Sarah. 2021. "Why Were Most Wealth Taxes Abandoned and Is This Time Different?" *Fiscal Studies* 42(3-4):539–63. https://doi.org/10.1111/1475-5890.12278

Pfeffer, Fabian T. and Nora Waitkus. 2021. "The Wealth Inequality of Nations." *American Sociological Review* 86(4):567–602. https://doi.org/10.1177/00031224211027800

Pickett, Kate E. and Richard G. Wilkinson. 2015. "Income Inequality and Health: A Causal Review." *Social Science & Medicine* 128:316–26. https://doi.org/10.1016/j.socscimed.2014.12.031

Piketty, Thomas. 2020. *Capital and Ideology*. Harvard University Press. https://doi.org/10.2307/j.ctv3405w0k

Piketty, Thomas. 2014. *Capital in the Twenty-First Century*. Harvard University Press.

Piketty, Thomas and Michael Sandel. 2025. *Equality: What It Means and Why It Matters*. Polity Press.

Piketty, Thomas, Emmanuel Saez, and Gabriel Zucman. 2023. "Rethinking Capital and Wealth Taxation." *Oxford Review of Economic Policy* 39(3):575–91. https://doi.org/10.1093/oxrep/grad026

Piketty, Thomas, Emmanuel Saez, and Stefanie Stantcheva. 2014. "Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities." *American Economic Journal: Economic Policy* 6(1):230–71. https://doi.org/10.3386/w17616

Pontusson, Jonas. 1992. "At the End of the Third Road: Swedish Social Democracy in Crisis." *Politics & Society* 20(3):305–32. https://doi.org/10.1177/003232929202000304

Prasad, Monica and Yingying Deng. 2009. "Taxation and the Worlds of Welfare." *Socio-Economic Review* 7(3):431–57. https://doi.org/10.1093/ser/mwp005

Rablen, Matthew D. and Andrew J. Oswald. 2008. "Mortality and Immortality: The Nobel Prize as an Experiment into the Effect of Status upon Longevity." *Journal of Health Economics* 27(6):1462–71. https://doi.org/10.1016/j.jhealeco.2008.06.001

Rawls, John. 2001. *Justice as Fairness: A Restatement*. Harvard University Press. https://doi.org/10.2307/j.ctv31xf5v0

Redelmeier, Donald A. and Sheldon M. Singh. 2022. "Long-Term Mortality of Academy Award Winning Actors and Actresses." *PLoS ONE* 17(4):e0266563. https://doi.org/10.1371/journal.pone.0266563

Rehm, Yannic and Lucas Chancel. 2022. "Measuring the Carbon Content of Wealth Evidence from France and Germany." World Inequality Lab. Working Paper No. 2022/12.

Robeyns, Ingrid. 2024. *Limitarianism: The Case Against Extreme Wealth*. Penguin.

Robeyns, Ingrid, ed. 2023. *Having Too Much. Philosophical Essays on Limitarianism*. Open Book Publishers. https://doi.org/10.7202/1110366ar

Robeyns, Ingrid. 2019. "What, If Anything, Is Wrong with Extreme Wealth?" *Journal of Human Development and Capabilities* 20(3):251–66. https://doi.org/10.1080/19452829.2019.1633734

Robeyns, Ingrid, Vincent Buskens, Arnout van de Rijt, Nina Vergeldt, and Tanja van der Lippe. "How Rich Is Too Rich? Measuring the Riches Line." *Social Indicators Research* 154(1):115–43. https://doi.org/10.1007/s11205-020-02552-z

Roine, Jesper and Daniel Waldenström. 2012. "On the Role of Capital Gains in Swedish Income Inequality." *Review of Income and Wealth* 58(3):569–87. https://doi.org/10.1111/j.1475-4991.2011.00475.x

Saez, Emmanuel. 2001. "Using Elasticities to Derive Optimal Income Tax Rates." *The Review of Economic Studies* 68(1):205–29. https://doi.org/10.1111/1467-937X.00166

Saez, Emmanuel and Stefanie Stantcheva. 2018. "A Simpler Theory of Optimal Capital Taxation." *Journal of Public Economics* 162:120–42. https://doi.org/10.1016/j.jpubeco.2017.10.004

Saez, Emmanuel and Stefanie Stantcheva. 2016. "Generalized Social Marginal Welfare Weights for Optimal Tax Theory." *American Economic Review* 106(1):24–45. http://dx.doi.org/10.1257/aer.20141362

Saez, Emmanuel and Gabriel Zucman. 2019a. "Progressive Wealth Taxation." *Brookings Papers on Economic Activity* 2:437–533.

Saez, Emmanuel and Gabriel Zucman. 2019b. *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay*. W.W. Norton & Company. `http://dx.doi.org/10.1007/s11408-020-00362-4`

Saez, Emmanuel, Joel Slemrod, and Seth H. Giertz. 2012. "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review." *Journal of Economic Literature* 50(1):3–50. `http://dx.doi.org/10.1257/jel.50.1.3`

Savage, Mike. 2021. *The Return of Inequality: Social Change and the Weight of the Past*. Harvard University Press. `https://doi.org/10.2307/j.ctv31xf633`

Seade, Jesus K. 1977. "On the Shape of Optimal Tax Schedules." *Journal of Public Economics* 7(2):203–35. `https://doi.org/10.1016/0047-2727(77)90046-9`

Sen, Amartya. 2017. *Collective Choice and Social Welfare*. Expanded edition. Penguin. `https://doi.org/10.2307/j.ctv2sp3dqx`

Sen, Amartya. 1999. *Commodities and Capabilities*. Oxford University Press.

Sen, Amartya. 1992. *Inequality Reexamined*. Harvard University Press.

Sen, Amartya. "Poor, Relatively Speaking." *Oxford Economic Papers* 35(2):153–69. `https://doi.org/10.1093/oxfordjournals.oep.a041587`

Scanlon, Thomas. 2018. *Why Does Inequality Matter?* Oxford University Press.

Scott, James. 1991. *Who Rules Britain?* Polity Press.

Sher, Itai. 2024. "Generalized Social Marginal Welfare Weights Imply Inconsistent Comparisons of Tax Policies." *American Economic Review* 114(11):3551–77 `https://doi.org/10.48550/arXiv.2102.07702`

Slemrod, Joel. 1995. "Income Creation or Income Shifting? Behavioral Responses to the Tax Reform Act of 1986." *The American Economic Review* 85(2):175–80.

Slemrod, Joel and Wojciech Kopczuk. 2002. "The Optimal Elasticity of Taxable Income." *Journal of Public Economics* 84(1):91–112. `https://doi.org/10.1016/S0047-2727(01)00095-0`

Smelser, Neil J. and Richard Swedberg. 2005. "Introducing Economic Sociology." Pp. 3–25 in *The Handbook of Economic Sociology*, edited by Neil J. Smelser and Richard Swedberg. Second edition. Princeton University Press.

Spash, Clive L. 2010. "The Brave New World of Carbon Trading." *New Political Economy* 15(2):169–95. `https://doi.org/10.1080/13563460903556049`

Steinmo, Sven. 1993. *Taxation and Democracy*. Yale University Press.

Stern, Nicholas. 2008. "The Economics of Climate Change." *American Economic Review* 98(2):1–37. `https://doi.org/10.1257/aer.98.2.1`

Stiglitz, Joseph E. 2012. *The Price of Inequality: How Today's Divided Society Endangers Our Future*. W.W. Norton & Company.

Stiglitz, Joseph E. 1982. "Self-Selection and Pareto Efficient Taxation." *Journal of Public Economics* 17(2):213–40. `https://doi.org/10.1016/0047-2727(82)90020-2`

Swank, Duane and Sven Steinmo. 2002. "The New Political Economy of Taxation in Advanced Capitalist Democracies." *American Journal of Political Science* 46:642–55. `https://doi.org/10.2307/3088405`

Therborn, Göran. 2013. *The Killing Fields of Inequality*. Polity Press.

Tilly, Charles. 2009. "Foreword." Pp. xi–xiv in *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective*, edited by Isaac W. Martin, Ajay K. Mehrotra, and Monica Prasad. Cambridge University Press.

Webber, Carolyn and Aaron Wildavsky. 1986. *A History of Taxation and Expenditure in the Western World*. Simon & Schuster.

Weber, Max. *Economy and Society. An Outline of Interpretive Sociology*. 2 volumes, edited by Guenther Roth and Claus Wittich. University of California Press. https://doi.org/10.1177/003803856900300342

Wilensky, Harold. 2002. *Rich Democracies. Political Economy, Public Policy, and Performance*. University of California Press.

Wilkinson, Richard G. and Kate Pickett. 2019. *The Inner Level: How More Equal Societies Reduce Stress, Restore Sanity and Improve Everyone's Well-being*. Penguin.

Wilkinson, Richard G. and Kate Pickett. 2009. *The Spirit Level: Why More Equal Societies Almost Always Do Better*. Allen Lane.

Young, Cristobal. 2017. *The Myth of Millionaire Tax Flight: How Place Still Matters for the Rich*. Stanford University Press.

Young, Cristobal and Ithai Lurie. 2025. "Taxing the Rich: How Incentives and Embeddedness Shape Millionaire Tax Flight." *Americal Journal of Sociology*. Forthcoming: https://doi.org/10.1086/737165.

Young, Cristobal, Charles Varner, Ithai Z. Lurie, and Richard Prisinzano. 2016. "Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data." *American Sociological Review* 81(3):421–46. https://doi.org/10.1177/0003122416639625

Zidar, Owen. 2019. "Tax Cuts for Whom? Heterogeneous Effects of Income Tax Changes on Growth and Employment." *Journal of Political Economy* 127(3):1437–72. https://doi.org/10.2139/ssrn.2112482

Zucman, Gabriel. 2024. *A Blueprint for a Coordinated Minimum Effective Taxation Standard for Ultra-High-Net-Worth Individuals*. Paper commissioned by the Brazilian G20 presidency.

Zucman, Gabriel. 2014. "Taxing across Borders: Tracking Personal Wealth and Corporate Profits." *Journal of Economic Perspectives* 28(4):121–48. https://doi.org/10.1257/jep.28.4.121

Elias Nosrati: Department of Sociology and Human Geography, University of Oslo. E-mail: eliasno@uio.no.