The Taxation of Personal Wealth in International Perspective

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L'importance des revenus d'impôt sur la richesse nette et sur les transferts de capital diminue presque partout. En général, cependant, les pays développés qui utilisent ces impôts ne semblent pas avoir l'intention de les abandonner. Les seules exceptions sont l'Australie et le Canada, qui n'ont jamais eu d'impôts sur la richesse nette et qui, comme un certain nombre du pays en voie de développement, ont aboli les impôts au décès. Quoique le Canada ait influencé certains pays en voie de développement en introduisant un impôt sur la richesse des compagnies, seul un changement politique majeur (comme l'élection d'un gouvernement socialiste en France et en Espagne) pourrait amener la réintroduction d'impôts sur la richesse personnelle dans ce pays.

The revenue importance of taxes on net wealth and capital transfers is diminishing almost everywhere. In general, however, those developed countries with such taxes show no sign of abandoning them. The main exceptions are Australia and Canada, which have never had net wealth taxes and which have, like a number of developing countries, abolished death taxes. Although Canada has further emulated some developing countries by introducing a new wealth tax on corporations, only a major political change (like the election of socialist governments in France and Spain) seems likely to result in the reintroduction of direct taxes on personal wealth in this country.

The origins of wealth taxes lie hidden in antiquity. Periodic taxes on land, livestock, and other forms of visible wealth are among the oldest sources of government revenues. Their modern descendant, the property tax, remains an important source of revenue in a number of countries, particularly English-influenced countries in which local governments are significant.[1] Even the most modern forms of wealth taxation, the net wealth and capital transfer taxes, have histories that may be traced back centuries. While the succession duties first levied in Ontario and three other provinces in 1892 were modelled directly on inheritance taxes in New York and Pennsylvania and indirectly on earlier 19th century predecessors in the United States and the United Kingdom (Perry, 1961), the history of death taxes goes back at least to the Romans. The association of death and taxes has long seemed as acceptable to the tax administrator as to the aphorist, if not always greeted with acclaim by the public at large.[2]

This paper focusses on two forms of wealth taxation: net wealth taxes and capital transfer taxes.[3] These two levies share two important features in common. First, they constitute the only direct taxes imposed on personal wealth in most countries – and when neither exists, as in Canada, there is in effect no purposive taxation of such wealth.[4] Secondly, both taxes were

Table 1
The importance of wealth taxes

Country group	Taxes as percent of: GDP	Total taxes
Lowest income group	0.24	1.05
Low income group	0.30	1.76
Low-middle income group	0.53	3.04
Middle-income group	0.64	3.05
OECD countries	1.96	5.47

Notes and Sources: These figures cover *all* taxes on wealth and property for a three-year period usually centred on 1981. The OECD figures have been calculated from OECD (1990) and may not be wholly comparable with the other figures, which are taken from Tanzi (1987). The Tanzi data cover 86 developing countries (including Turkey, which is also in the OECD group); divided into four groups based on per capita GNP (in 1981 US dollars).

fathered by the need for revenue, nurtured and developed by the milk of equity, and have recently, in some countries, been abandoned by their parents. To the extent that the rise and decline over the past century of the direct taxation of personal wealth mirrors the fate of egalitarian tax policies in general, these taxes are worth more attention than their relatively minor revenue importance might suggest.

The next section reviews the available data on wealth taxation and international trends in the taxation of personal wealth. The following section discusses the recent increase in the taxation of corporate capital even in countries such as Canada in which direct taxes on personal wealth have vanished. A brief concluding section attempts to say something about two important, but difficult, questions: first, why are wealth taxes dying out? (Death may still be certain, but death taxes no longer are!) Secondly, is there any realistic prospect of their revival in Canada in the near future?

Trends in Wealth Taxation

Table 1 depicts two important facts about wealth taxes, even when broadly defined to include *all* direct taxes on wealth (including the property taxes that are not otherwise discussed in this paper). The first is that wealth taxes are not very important sources of revenue in any country. Among the 86 developing countries included in the first four groups shown in the table, for example, wealth taxes account for more than 1 per cent of GDP in only eight and for over 5 per cent of total taxes in only 12. Only in the city-state of Singapore are such taxes important, accounting for 14 per cent of all taxes and 2.6 per cent of GDP. The second fact brought out in Table 1 is that the importance of wealth taxes increases as the level of per capita income rises. Only in six of the 23 OECD countries included in the table, for example, do taxes on wealth yield less than 1 per cent of GDP, while in 10 of them such taxes account for more than 5 per cent of total taxes.

The Developing Countries

This result may not seem surprising: not only do wealthier countries have more wealth to tax but the administrative demands of wealth taxes may be thought to put them beyond the reach of poorer countries. Tanzi (1987:235), for example, concludes as follows: 'In recent times administrative constraints have usually made these taxes both unproductive and inequitable in developing countries. Their most sophisticated version – the net wealth tax – has proved a costly mistake in developing countries that have attempted to implement it.' The taxation of wealth has clearly had a rough passage in most developing countries, not least for obvious political reasons, and will never be easy to implement anywhere.

Nonetheless, to the extent that an objective of tax systems is to levy taxes in accordance with some notion of 'ability to pay,' some degree of wealth taxation, however imperfect, may be thought to constitute an indispensable component of a 'good' tax system.[5] Even when very poorly administered, as in Bolivia, for example, the death tax collected as much revenue from the rich as the income tax (Musgrave, 1981). Similar studies in Colombia found that the net wealth tax (and the presumptive income tax based on net wealth) accounted for almost all the non-wage personal income taxes collected in that country (McLure et al., 1989). The distributive impact of wealth taxes may thus be poorly indicated by revenue data such as those summarized in Table 1.[6] Even some recent advocates of replacing income by expenditure taxes in developing countries have argued that wealth taxes, and in particular the net wealth tax, despite its admitted deficiencies, can in principle play an important and useful role (McLure et al., 1989).

Nonetheless, the tide of recent history is clearly against wealth taxes in developing countries. Despite the evidence mentioned above on the apparent impact on the wealthy of the Colombian net wealth tax, this levy has since been abolished. Mexico and Argentina had abolished their death taxes earlier, and the latter also abolished its net wealth tax in 1989 (Teijeiro, 1990). Similarly, Indonesia abolished its net wealth tax as part of a sweeping tax reform in 1985, and Pakistan has repealed its death tax. Even India, long the bastion of the most 'egalitarian' tax policy in the developing world (at least on paper), abolished its estate duty and gift tax in 1985 following a critical report which detailed the problems with the existing levies but nonetheless concluded that they had an important role to play and deserved reform, not abolition (Bagchi and Chaudhury, 1983). Many other countries – Sri Lanka, Korea, Bangladesh, etc. – have taken measures which have further reduced the already miniscule importance of their taxes on wealth.[7]

The OECD Countries

Matters are somewhat different in the richer parts of the world conveniently grouped together in the OECD.[8] Although net wealth and capital transfer taxes declined only from 0.5 to 0.4 per cent of GDP from 1965 to 1988, their importance as a proportion of total taxes fell more sharply, from 2.0 to 1.1 per cent. Only in France and Japan did the revenue importance of these taxes rise.

Table 2 shows that 11 OECD countries levy annual taxes on personal net wealth, with such taxes being by far the most important in Switzerland.[9] Only in Switzerland and Norway do such taxes yield more than 1 per cent of tax revenues. Similarly, while all OECD countries but Canada and Australia levy some form of capital transfer tax, usually in the form of an inheritance tax, only in Japan do such taxes yield as much as 1 per cent of tax revenues. Only in Switzerland do the combined net wealth and capital transfer taxes yield as much as 1 per cent of GDP.[10] Finally, although no relevant revenue data are available, Table 2 shows that only two countries, Canada and Spain, subject capital gains accrued at death to tax: five countries allow a carry-over of basis, eight countries (including the United States) explicitly exempt such gains, and eight countries do not tax capital gains in any case.

In summary, only Spain has a net wealth tax, an inheritance tax, and taxation of capital gains at death; only Australia has none of these levies. In between, Denmark, Luxembourg and Sweden impose net wealth and inheritance taxes and defer gains taxes at death; Austria, Finland, France, Germany, Netherlands, Norway, and Switzerland levy net wealth and inheritance taxes but do not tax gains at death; Japan taxes inheritances and defers gains taxes at death; Belgium, France, Greece, Ireland, Italy, New Zealand, Portugal, Turkey, the United Kingdom and the United States tax inheritances but not gains at death; and Canada stands alone in taxing gains at death but levying no inheritance tax.

The relative decline of wealth taxes almost everywhere does not mean, however, that this field of taxation has been stagnant or that the trend has been uniformly away from wealth taxation throughout the post-war period. On the contrary, there have been a number of interesting developments in different countries that deserve at least brief summary here, beginning with the

Table 2
Direct taxes on personal wealth in OECD countries, as percent of total taxes, 1988

Country	Net wealth tax	Capital transfer taxes	Type of CTT	Capital gains tax at death
Australia	none	none[a]	none	deferral
Austria	0.39	0.21	inheritance	none
Belgium	none	0.64	inheritance	none
Canada	none	none[a]	none	eyes
Denmark	0.48	0.56	inheritance	deferral
Finland	0.10	0.39	inheritance	exempt
France	0.01[b]	0.87	inheritance	exempt
Germany	0.31	0.30	inheritance	none
Greece	none	1.11	inheritance	none
Ireland	none	0.31	inheritance	exempt
Italy	none	0.19	estate; inheritance	none
Japan	none	1.58	inheritance	deferral
Luxembourg	0.35	0.24	inheritance	deferral
Netherlands	0.48	0.50	inheritance	none
New Zealand	none	0.27	estate	none
Norway	1.05	0.18	inheritance	exempt
Portugal	none	0.60	inheritance	exempt
Spain	0.43	0.51	inheritance	yes
Sweden	0.51	0.17	inheritance	deferral
Switzerland	2.21	0.88	inheritance[c]	exempt
Turkey	none	0.13	inheritance	none
United Kingdom	none	0.63	estate	exempt
United States	none	0.77	estate	exempt
Average[d]	0.57	0.53		

[a] Australia and Canada have no CTT but collected very small revenues from former taxes.
[b] France re-established the net wealth tax in 1988 after a two-year hiatus.
[c] Taxes are levied by cantons in different forms. Three cantons levy estate taxes, two of them together with inheritance taxes.
[d] Unweighted average of countries with such taxes.
SOURCES: OECD (1988; 1990).

two countries that have turned away most markedly from wealth taxes – Canada and Australia.

Taxation at Death

Canada

The demise of death taxation in Canada followed directly from the abolition of the federal estate tax in 1972 as part of the tax reform package that introduced the capital gains tax and applied it to gains accrued on bequests and gifts. Although nominally the federal government returned the death tax to the provinces (where it had started in the 19th century, as noted above), Alberta and Saskatchewan had earlier vacated the field and the political pressure to follow their lead soon proved insuperable. By 1985, when Quebec abandoned its death tax, the last nail had been driven into the coffin of personal wealth taxation in Canada.[11] Given the long history and generally favorable academic press of death taxation – academics have seldom praised existing death taxes but they almost never wish to bury them – the silence on this issue in Canada has been rather surprising.[12]

When capital gains were subjected to tax at death, arguments that this levy completed the income tax rather than substituted for death taxes fell on deaf ears. Imposing two taxes at the time of death was clearly seen as 'double taxation' (in the words of a minority report to the Carter

Commission), which everyone knows is a Bad Thing. Combined with strong pressures from such interest groups as farmers and small businessmen, this argument sealed the fate of the federal estate tax (Bird, 1978b).

A second lesson some have drawn from Canadian experience is that subnational governments cannot successfully levy taxes on personal wealth. Once the federal shield was removed, it became increasingly difficult for provincial governments to withstand the pressure to abolish their taxes in turn, both because they are more vulnerable to economic and political pressure from the potentially mobile wealthy in general and more particularly because they are more readily reached by such local 'influentials' as small businessmen and farmers. It was clearly the strength of the farm interest that prompted (then) socialist Saskatchewan to be one of the first to abandon death taxation. This argument should not be pushed too far, however, since dodging provincial succession duties required that both decedent *and* heirs be resident in a 'tax haven' (Goodman, 1972). Moreover, the provinces managed – albeit poorly – on their own for decades before the federal government ever entered the field, just as Swiss cantons today levy a wide variety of taxes on personal wealth both annually and at death.

Australia

The history of death taxation in Australia reads much like that of Canada, with a few years time lag. As in Canada, where Alberta's 1967 decision to rebate its (75%) share of estate taxes to the taxed estate turned out in the end to be an important factor in the subsequent federal decision to abandon the field entirely, Australia's 'Texas,' Queensland, led the way with its 1975 decision to abolish succession duties (Saunders, 1983). Over the next few years the other states and the federal government engaged in a race to see who could be first to shed the death tax: by the early 1980s all had succeeded. Death duties were as dead in Australia as in Canada. And so they have since remained, despite the more marked efforts of Australian than of Canadian academics to breathe life into this dormant subject (Saunders, 1983; Piggott, 1984; Groenewegen, 1986).

Japan

In contrast to the move away from death taxes in Canada and Australia, there is one OECD country in which such taxes have remained notably strong, and even increased in revenue importance in recent years. Surprisingly perhaps, that country is Japan, where an estate tax (based on the value of the decedent's property) was first adopted in 1905 and replaced by an accessions tax (based on the cumulative total of gifts and bequests received by a given individual) in 1950 as a result of an Occupation-inspired report by American tax experts led by Carl Shoup. As is the way with foreign-inspired innovations in many countries, however, this idea did not take root in Japan. In 1953, largely on administrative grounds, the accessions tax was replaced by an inheritance (and gift) tax based on the size of particular legacies (and, as is common with such taxes, the degree of consanguinity, or relationship). Finally, in 1958 a sort of hybrid estate-inheritance tax was imposed, based on the net estate but with the tax due depending on the statutory (civil law) shares and the division of the tax among the heirs depending on the actual bequests received by particular heirs and their relationship to the deceased.[13]

Despite the growing burden of this tax, the only significant change in recent years was a substantial increase in the basic exemption in 1975, with a consequent sharp decrease in the percentage of estates subject to tax. Since then, however, the proportion of taxable decedents has resumed its rise, reaching 6.9 per cent in 1986, compared to 2.1 per cent in 1975 (4.6% in 1974), 1.9 per cent in 1965 and only 0.8 per cent in 1958 (Ishi, 1989:210). In the circumstances, it would not be surprising to see another adjustment in the exemption level (or rates) shortly, although there does not appear to be great pressure in this direction.[14]

Apart from its apparent political resilience, two other features of the Japanese inheritance tax are worth notice. The first is that, despite its minor revenue importance, this tax appears to have a surprisingly marked redistributive effect on the concentration of wealth: its effect on reducing the inequality of wealth distribution, for example, appears to be at least twice as strong as the effects of the income tax in reducing the inequality of income distribution.[15] As in the quite different circumstances of Canada (Bossons, 1972) and Bolivia (Musgrave, 1981), it appears that even a small, complex, and administratively costly death tax may have substantial redistributive impact – an outcome that may be acclaimed by some and deplored by others.

Secondly, by far the largest proportion of the tax base – 65 per cent in 1986 – consists of land (Ishi, 1989:209). That this proportion is so high in so advanced a country may seem surprising, but it is broadly in line with experience in many other countries, developed and developing alike. In practice, the most important element of the base of most wealth taxes is usually real estate. The strong connection between local property taxes and national net wealth taxes recently led one country (Colombia) to abolish a long-standing net wealth tax in an effort to damp down political agitation arising from a poorly-executed revaluation in the capital city, Bogota (Uchimura and Bird, 1989). The moral seems similar to that noted earlier with respect to the taxation of capital gains at death in Canada and the demise of federal estate tax. The best-laid attempts of tax theorists to distinguish the bases and objectives of different taxes may easily go awry when confronted by public perceptions. 'Double taxation,' whether at death or on residential property, is never popular.

Net Wealth Taxation

In contrast to the death tax, no developed country with a long-standing net wealth tax has so far abolished this tax. Indeed, in recent years three important countries, Ireland, France and Spain, have introduced new net wealth taxes. Two of these countries, France and Ireland, soon withdrew from the field, however, although France has since re-entered it.[16] In all three cases, the net wealth tax was introduced soon after a major political change. In Ireland and France (twice!), however, a change of government soon led to a reversal of policy.

Ireland

A wealth tax (with large exemptions) was introduced in Ireland in 1975 as part of a general tax reform including a tax on realized capital gains, a so-called capital acquisitions tax (essentially an accessions tax on the cumulative total of gifts and bequests received by an individual) replacing the old estate duty, and a reduction in local property taxes. The aim of the wealth tax was to improve the horizontal equity of the tax system by imposing a surcharge on the extra benefits (potential or actual) conferred by the possession of wealth. In practice, however, the tax had such a high threshhold and was so riddled by exemptions that its efficacy in this respect was doubtful. A careful assessment of the operation and effects of the Irish wealth tax concluded that it 'was not only a failure, but a costly failure' (Sandford, 1988:9).

In the circumstances, it is perhaps not surprising that this tax was abolished when the opposition came to power in 1977. Nonetheless, as Sandford (1988) stresses, many of the problems of the Irish wealth tax were not inherent in wealth taxation as such but rather arose from both the peculiarly imperfect design and administration of the tax and the hasty way in which it was introduced. He drew four general lessons from the Irish experience, all of which seem relevant to possible future Canadian moves in this direction:

(1) It is dangerous for political parties to make rash fiscal commitments while in opposition – especially if they feel impelled to carry them out

Table 3
Taxes on corporate capital, OECD countries, 1965 and 1988 (as percent of total taxes)

Country	1965	1988
Austria	1.06	0.66
Canada	0.17	1.02
Finland	0.97	0.01
France	–	0.40
Germany	2.10	0.87
Luxembourg	2.00	3.85
Norway	0.63	0.40
Sweden	0.01	0.01
Switzerland	2.16	1.48

SOURCE: OECD (1990).

quickly when they come to power.[17]
(2) Tax administrations are conservative organizations which have little research capacity and are seldom prepared to rethink administrative procedures.[18]
(3) Interest groups have a strong, and usually pernicious, effect on the design of policy. In Ireland, as elsewhere, the 'sturdy yeomanry' of farmers, small businessmen, and homeowners managed to rip out the heart of the wealth tax as a device to attain horizontal equity before it even became law.[19]
(4) Abortive experiments in tax reform are costly in both political and economic terms. Governments should not get into the tax reform game unless they know where they are going and how they are going to get there, and can demonstrate to the satisfaction of a sufficiently large part of the public that the gain is worth the pain.

Conclusion
To conclude, there continues to be wide divergence in how different OECD countries tax wealth. In particular, half have annual net wealth taxes and half do not. Those that have had such taxes for many years show no sign of shedding them, but of the four countries that have introduced net wealth taxes in the postwar period (Japan, Ireland, Spain, and France), only Spain and France still have one. Turning to capital transfer taxes, two countries (Canada and Australia) have abolished such taxes completely, and there has been a small movement away from estate towards inheritance taxes in a few other countries (e.g., Ireland) and a substantial reduction in (and simplification of) rates in a number of others, most notably in New Zealand which now has a flat rate tax of 40 per cent at death (although there is still a four-rate scale on gifts).

There is, however, no strong evidence of a drift away from wealth taxation in the developed world as a whole. Most countries seem surprisingly content to chug along their existing wealth tax tracks with a minor modification here and a small reduction there. Such conservatism in this highly political area of tax policy may perhaps reflect their agreement with Sandford's conclusions on the Irish experience noted above, or with the more general conclusion reached by Carl Shoup (1983:392) at the end of an earlier survey of wealth taxation around the world, that 'extreme policy oscillation is almost certain to destroy a tax system's acceptability to taxpayers, their advisers, and tax administrators. Without such acceptability, the system tends to decay. The price paid to accomodate extreme tax philosophies seems too high.' The final section returns briefly to this critical theme of the political economy of wealth tax reform.

Net Wealth Taxes on Corporate Capital

To turn briefly to a rather different matter, as Table 3 shows, at least nine OECD countries – all of which except Canada also levy personal net wealth taxes – impose some form of wealth taxation on corporations. In a sense, what Canada has done is thus to replace taxes on personal wealth, for which there are clear theoretical arguments, by taxes on corporate wealth which have no theoretical justification although they may have an administrative rationale. The fact that taxes on corporate assets are apparently easier to enforce than taxes on corporate income is certainly the main reason such taxes are becoming increasingly prominent in such developing countries as Mexico (McLure, 1989), Colombia (McLure et al., 1989), Argentina (Teijeiro, 1990) and Bolivia (Cabezas, 1990). Although it seems unlikely that it is as difficult to enforce corporate income taxes in Canada as in Latin America, a brief review of Latin American experience may nonetheless provide some interesting hints towards the needed closer examination of this phenomenon in Canada.

It was noted earlier, for example, that Colombia recently abolished its net wealth tax. Net wealth continues to play an important role in the Colombian tax system, however, as the principal basis for the calculation of the minimum income tax base known as 'presumptive income'. The taxable income of all taxpayers, individuals and companies alike, is taken as the greater of 6 per cent of net wealth at the end of the previous year or the amount of taxable income reported.[20] The importance of this 'minimum tax' provision is suggested by the fact that in 1984 one-third of all companies were taxed on a presumptive basis, with the proportion being as high as 43 per cent in the financial sector and 39 per cent in the agricultural sector. Slightly less than 13 per cent of company taxes were assessed on this basis in that year.[21] Even these figures may substantially understate the importance of the presumptive provisions if, as has been suggested, many taxpayers deliberately report income just a little larger than that which would otherwise be presumed in order to reduce the likelihood of being investigated. This 'presumptive income tax' is of course really a wealth tax. For example, if 6 per cent of net wealth is taxed at the maximum income tax rate of 30 per cent, the result is the same as if the net wealth itself was taxed at a rate of 1.8 per cent, or the same rate as the maximum wealth tax rate in 1988.[22]

In a major tax reform in 1986 Bolivia abolished both individual and corporate income taxes (Cabezas, 1990).[23] In their place, a trio of 'presumptive' taxes was created on individuals, on enterprises, and on small enterprises, respectively. The enterprise income tax was largely replaced by a 2 per cent tax (later raised to 2.5%) on the net worth of enterprises. This tax was considered to be equivalent to an income tax of 20 per cent levied on a 10 per cent rate of return. The tax base is all assets held by an enterprise except shares in companies also subject to the tax. As in Colombia, the efficacy and effects of this tax of course depend entirely upon how well it is administered, for example, with respect to detecting fraudulent debts used to reduce net wealth. In contrast to Colombia's presumptive income tax, however, the new Bolivian tax on corporate wealth serves not as a minimum tax but as the sole tax on business income.

The new government which took office in Mexico in 1989 was, as so often in Latin America, faced with the unpleasant necessity of raising revenues. It did so by introducing a 2 per cent tax on the (inflation-adjusted) assets of firms (excluding shares in other firms). Unlike Bolivia, however, Mexico maintained its corporate income tax: in effect, the new tax on corporate wealth thus functions as a minimum corporate tax (McLure, 1989).

In apparent contradiction to this trend, Argentina, which had long had a corporate net wealth tax, abolished both this 'capital tax' and the individual net wealth tax in 1989. The capital tax, which had been levied at a rate of 1.5 per cent, was, however, replaced by a 1 per cent tax on *gross* assets, with the tax being creditable against income tax (Teijeiro, 1990). In Argentina, as in Colombia, Bolivia, and Mexico, the taxation of net wealth thus seems to have taken on a new lease on life as an alternative form of corporate taxation.

The direct relevance for Canada of these recent Latin American experiments with taxes on corporate wealth is of course limited. It may be, however, that the increasing resort to somewhat similar taxes on corporate capital in this country reflects similar difficulties in applying the regular corporate income tax, particularly to the financial sector which appears to be the major intended target of Canadian 'capital' taxes. Further exploration of this subject, however, would constitute an even greater diversion from the main topic of this paper, the taxation of *personal* wealth.

The Political Economy of Wealth Taxation

Whether one considers developed or developing countries, the fate of wealth taxation is primarily determined by political forces. When, as at the turn of the century in the developed countries and in the early postwar era in the developing countries, truth, beauty, and light are seen to lie in the pursuit of egalitarian tax policies, wealth taxation flourishes. When the spotlight shifts to concern with economic growth and economic efficiency, the lustre of wealth taxes will dim and they may either be abolished, as in Canada and Australia, or simply allowed to fade away, as in a number of developing countries.

A possible explanation for the otherwise puzzling phenomenon of majority support for the reduction of taxes that affect only the richest few in society may run along the following lines.[24] Governments inevitably consider the benefits and costs of tax changes primarily in political terms. When the benefits at the margin to a government (e.g., in terms of probability of electoral success) of a particular change exceed the costs (e.g., in terms of electoral defeat or the alienation of critical supporters), that change is more likely to be made. What seems to have happened with respect to wealth taxation in a number of countries is that the perceived benefits of such taxes declined, perhaps reflecting both their decreasing revenue importance and an apparent decline of the 'taste for equality,' envy, the symbolism of progressivity once conveyed by such taxes, or whatever one wishes to call it.

At the same time, the political gains from reducing taxes may have increased for a number of reasons. Resentment of taxes in general clearly increased throughout the 1970s in Canada as elsewhere,[25] so that the gain from being able to announce the abolition of a tax – any tax! – presumably increased correspondingly. The fact that death taxes focus on a small but influential group undoubtedly increased the pressure for abolition from those who had so much to gain. Moreover, following the sharp break in growth trends in the early 1970s, public willingness to support 'growth' as opposed to 'equity' measures obviously increased, and the abolition of taxes on wealth can clearly be presented in this light, regardless of the weakness of the case for so doing (Bird, 1978a).

When coupled with the apparent reality that few tax issues arouse more emotion than death taxes – perhaps especially in an aging population because of the conjunction of two events that few people contemplate with pleasure – and the eternal optimism of the middle class, that they too will have a chance to reap the big rewards, the rush to gain popular acclaim by abolishing death taxes in Canada and Australia is perhaps understandable. Indeed, what is perhaps more surprising is that other democracies have not jumped on the same bandwagon, since it is seldom governments can apparently please both the rich and the masses with the same action. On the other hand, as the study of fiscal history (Webber and Wildavsky, 1986) shows, it is hard to overstate the importance of fiscal inertia: what countries have, they tend to keep. Change does occur, of course, but only gradually.

The end of the 19th century saw the birth of modern wealth taxes. The end of the 20th century is not likely to see their demise. Neither, however, does wealth taxation seem likely to receive a new lease on life in Canada, short of a drastic political move to the left. As Tait (1983) noted, whatever economists may say about the theoretical virtues of wealth taxation in general or in particular forms, only major political dissatisfaction with increasing inequalities in wealth is likely to lead to a resurgence of interest in wealth taxation. Short of a drastic political turnaround, Canada's (lack of) wealth taxation thus seems likely to persist.

Notes

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1 For a review of the role of the property tax in local finance in OECD countries, see Bird and Slack (forthcoming).The incidence of the property tax may be such that to some extent it constitutes a progressive tax on wealth (Kitchen, 1987). However, an impersonal tax on gross wealth held in a specific form such as real estate, which does not take into account the total personal wealth position of those upon whom it impinges, can achieve any socially-desired equity standard only by accident, if at all. For this reason, the property tax is not further discussed in this paper (except in relation to Table 1).

2 In words often echoed by more recent critics of death taxes, Pliny the Younger argued that a tax on inheritances 'was an "unnatural" tax, augmenting the grief and sorrow of the bereaved'. (Cited in Goldstein, 1971:3.)

3 No attempt is made here, however, to set out in detail the nature of the capital transfer taxes found in the world (see especially OECD, 1988) let alone the even more arcane devices beloved of theorists (see e.g., Tait (1967), Sandford, Willis and Ironside (1973), and Institute for Fiscal Studies (1978)). For the most part, we shall simply use 'death taxes' or 'capital transfer taxes' as shorthand for the infinite variety of taxes that may, in theory or practice, be levied on gratuitous transfers by bequest (or gift).

4 This statement assumes that the capital gains tax at death (or gift)is not a substitute for a death tax but rather a way of making up for the failure of the income tax to tax capital gains as they accrued prior to the transfer. This position, which is of course not accepted by everyone, is developed at length in Bird and Bucovetsky (1976: chap. 3) and is not restated here. Note also that a largely accidental tax on wealth is imposed whenever taxes on income from capital are not fully adjusted for inflation, at a rate varying with the rate of inflation, the composition of portfolios, and lags in tax payments: this form of 'wealth taxation' is also left out of account here.

5 For an extended analysis of the role of wealth taxation in a developing country, see Bird (1978a). A more recent statement may be found in McLure et al. (1989).

6 The administrative difficulty of imposing 'roughly just' taxes at least on real property, the dominant form of wealth-holding in most poor countries, is also less than Tanzi's assessment suggests. The evidence underlying this assertion is developed at length in Bird (1974), which also emphasizes the historical evidence on the relatively *greater* importance of simple wealth taxes in less developed than in more developed countries. For a more recent review of these questions, which reaches essentially the same conclusions, see Skinner (1990).

7 These examples are taken from Shoup (1983), Gillis (1989), and personal knowledge.

8 For more detailed discussion of the European case, see Kessler and Pestieau (1991).

9 In addition, Iceland reportedly has a net wealth tax as well as an inheritance tax (OECD, 1988), although no other information is available on this country.

10 The unweighted average of these two taxes as a percentage of GDP for all OECD countries in 1985 was 0.26%, down from 0.30 in 1975 and 0.42 in 1965 (OECD, 1988:168).

11 Although by 1985 presumably most gains accrued at death would have been subject to capital gains tax (since only gains accrued before 1971 – a huge amount, as Bossons (1972) pointed out! – and gains on principal residences were excluded), the impact of this measure was substantially alleviated for many smaller taxpayers by the introduction in 1985 of a limited exemption of gains which could be applied to deemed gains at death to the extent not previously utilized. In any case, even full taxation of gains on an accrual basis has nothing to do in principle with whether bequests and gifts should be subject to a special tax or not: for further discussion, see note 4 above and Musgrave, Musgrave, and Bird (1987:446–8).

12 The earlier discussion is summarized in Bird (1978b); for an interesting – and exceptional – recent argument for wealth taxation, see Michalos (1988).

13 Ishi (1989:205–6) sets out the structure of this tax clearly in two diagrams.

14 Ishi (1989) appears to support such a change although he notes that raising the basic exemption in 1975 weakened the redistributive effect of the tax considerably. The equalization coefficient (defined as the before-tax Gini coefficient of wealth distribution less the after-tax coefficient, divided by the before-tax coefficient) fell from 16.67 in 1974 to 13.31 in 1975 and then to 10.92 by 1986 (Ishi, 1989:214).

15 Compare the tables on pp. 153, 154 and 214 on Ishi (1989): there are of course many problems both with the data in such exercises and with the way in which equalization is measured: for further discussion, see Davies (1991).

16 Japan also introduced a net wealth tax in 1950, following the recommendations of the Shoup mission, and then abolished it in 1953, citing

administrative problems (Ishi, 1989).

17 Sandford (1988) draws parallels with the earlier abortive experience of the UK Labour party in the 1970s with wealth and capital transfer taxes and with Mrs. Thatcher's rash promise to abolish local taxes on residential property and the ensuing poll tax mess. An obvious Canadian parallel is the Conservative platform on capital gains taxation and the ridiculously complex limited 'lifetime' exemption that ensued. It remains to be seen what the new NDP government in Ontario will do: its 'Fair Tax Commission' is presumably hard at work on wealth tax issues at the moment.

18 What Sandford (1988) had in mind in this respect is the argument that net wealth taxation works well only when it is administered in a 'rough' way, that is, with a lot of formula valuation (as in the Continental countries with substantial experience with such taxes), rather than in the precisely detailed ways to which estate tax valuers are accustomed. Canadian readers may wish to reflect on some of the GST gyrations in this connection: for a strong argument that as 'new' an administration as possible is needed to introduce successfully a tax that is itself new in any significant way (like the VAT), see Casanegra and Silvani (1990).

19 Indeed, the only reason the rather conservative senior partner in the coalition government went along with the wealth tax in the first place was because it used the occasion to abolish the estate tax in response to rural pressure: shades of Saskatchewan in the 1960s!

20 Until 1989, the basis was the greater of 8% of net worth, 2% of gross income (excluding occasional gains), or taxable income.

21 Although comparable figures are not available for individual taxpayers, studies for earlier years suggest that perhaps as much as 30% of all income taxes were based on presumptive assessments (Perry and Cardenas, 1986).

22 That wealth taxes at rates as high as these were long acceptable in Colombia suggests that there has been substantial undervaluation of the net wealth tax base. In comparison, the highest rate of net wealth tax in the OECD is 3.0% in Sweden, which (like most countries with net wealth taxes) has a ceiling provision limiting the total amount payable in combined income and wealth taxes as a percentage of taxable income.

23 Death and gift taxes were also abolished initially, but they were reinstated in 1987 at a rate of 1% on transfers to spouses and direct descendants and ascendants and 10 to 20% on other transfers.

24 Graetz (1983:285) noted with respect to a California vote in favor of the repeal of death taxes which was supported by a 64% majority: 'This was a greater majority than those in favor of a nuclear freeze ... The only convincing explanation that has occurred to me for this phenomenon lies in the optimism of the American people. In California, at least, sixty-four percent of the people must believe that they will be in the wealthiest five to ten percent when they die.' Similarly suspect reasoning might lead one to conclude that close to 100% of Canadians and Australians think they or their relatives will be in the top 1 or 2% when they die! Even the rather weak argument suggested in the text seems better than this.

25 For an argument that the rising antagonism to taxes may have reflected mostly increasing dissatisfaction with expenditures, see Bird (1982). Bird (1991) provides a wider perspective on the choice of tax instruments, drawing on the work of Hettich and Winer (1988) and Gillespie (1988).

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