

# Towards Economic Equity: Wealth Taxes and UBI

Avery Li

Livingston High School, Livingston, NJ, USA

Email: [avery.ming.li@gmail.com](mailto:avery.ming.li@gmail.com)

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## Abstract

In recent decades, the United States has struggled with economic inequality and stratification that has persisted at concerning levels despite the modern enforced progressive income tax. While the current tax system theoretically aims to fairly tax each level of income earners, the wealthiest Americans hold much of their earnings in capital gains and investments, which are taxed at lower rates than the wages of the lower classes. Legislation like the 2017 Tax Cuts and Jobs Act further exacerbated wealth concentration at the top 1%, suggesting the importance of exploring new taxation and distribution methods to lessen the widening wealth gap. This paper explores the potential of a wealth tax as one such method, considering its ability to fund redistribution programs (specifically a Universal Basic Income), promote economic equality, and induce economic mobility. Utilizing an equitable taxation method like a wealth tax to fund a UBI approach facilitates a transparent policy of promoting equity and stability, emphasizing a tangible way the government can assume its role of mitigating wealth inequality. The double-pronged nature of the strategy creates a straightforward mechanism for redistribution and helps the public better understand how social support programs are financed. The study investigates common criticisms of both a wealth tax and UBI, laying out policy implementation suggestions and linking the proposals to a future of economic growth. The paper ultimately suggests that through a combined wealth tax and UBI strategy, U.S. policymakers can stimulate economic activity from all classes and simplify aspects of the current welfare system to efficiently mitigate the drastic income inequality our nation faces.

## Keywords

Income Inequality, Economic Stratification, Wealth Redistribution, Progressive Taxation, Universal Basic Income, Wealth Tax

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## 1. Introduction

Economic inequality has become the forefront of public and policy debate—not only in the United States but also worldwide. In the third quarter of 2023, 66% of the total wealth in the U.S. was held by only the top 10% of earners, while 50% of total earners owned merely 2.6% of the national wealth (Statista, 2023), demonstrating alarmingly uneven distribution. The emphasis on earning money to preserve one's wealth and, thus, one's personal liberty remains an important pillar of American individual freedom, yet thousands of Americans are unable to exercise this freedom due to the nation's stark economic disparity. Economic insecurity dampens entrepreneurial efforts, stagnating innovation and growth. More alarmingly, however, poverty has detrimental impacts on quality of life, limiting individuals' access to basic health and social services. In fact, a study done by the University of Washington displayed a causal relationship between economic inequality and shorter lifespans, emphasizing the role of economic and social policies behind this trend (Stringer, 2023).

While there is no shortage of federal income transfer programs today, a fair amount of government aid intended for the poor never reaches them (Gleason, 2023), a reality perpetuated by rising housing and medical costs, confining Americans in poverty. Although spending on welfare programs has increased, most of this funding goes toward Medicaid and Medicare, which helps those with lower incomes maintain their health, but it does little to fully boost individuals out of poverty. Households at the lowest distribution then must borrow to finance daily expenditures, contributing to the fragility of many household balance sheets and, thus, macroeconomic instability (Papadimitriou et al., 2014), which has generally been associated with poor growth performance and less private investment (Ames et al., 2001).

As inequality rises, fiscal redistribution stands as a method to alleviate such conditions. While the method of implementation is often controversial, with its opponents fearing the reliance of the poor on government programs, the need for redistribution only grows alongside increasing inequality. Policymakers must experiment with a plethora of measures to tackle inequality. This paper investigates one such combination of strategies: employing an effective wealth tax to reduce inequality and a universal basic income approach to redistribute the resources. It begins by discussing the extent and causes of inequality in the United States today before exploring one possible wealth tax model, addressing common critiques, and suggesting recommendations for implementation. Additionally, it examines a guaranteed income plan that utilizes funds derived from said wealth tax, as well as potential methods of execution that would generate the most benefit and result in the least burden on citizens.

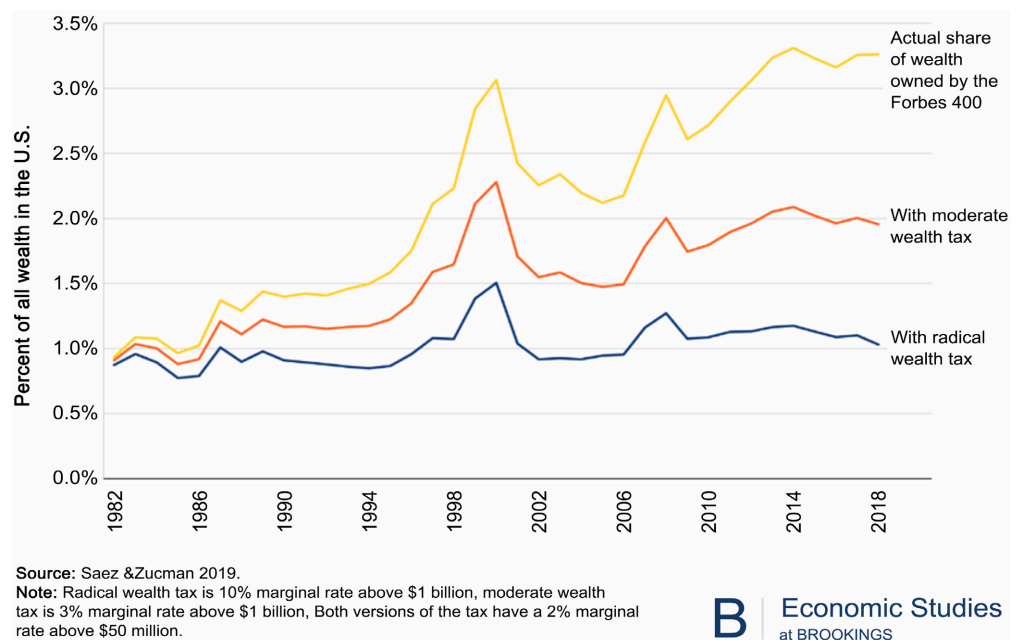
## 2. Taxing Wealth to Create Economic Health?: Examining a Wealth Tax

### 2.1. The Role of Tax Policy in Wealth Inequality

Although the current federal income tax is progressive, it has failed to lessen the

wealth gap. The wealthiest Americans easily and commonly evade hefty income taxes. Wages and retirement only account for about 15% of taxable income for the top 0.01% of households, who receive most of their income from investments, such as realized capital gains and interests, as well as businesses. In comparison, wages and retirement account for 94% of adjusted gross income for the bottom 80% of earners (Gale & Vignaux, 2023). Since wages face heavier taxation than capital gains, the ultra-rich avoid the higher taxation intended by federal law, allowing them to retain their bloated wealth. The wealthiest taxpayers often choose to receive most of their wealth in capital or investment income, creating an uneven tax burden distribution.

In recent decades, the capital income share has only grown (Giandrea & Sprague, 2017). The Tax Cuts and Jobs Act of 2017, which, rooted in theory of the ever-controversial “trickle-down” economics, aimed to spur economic growth by reducing the top marginal income tax rate from 39.6% to 37% and the corporate tax rate from 35% to 21%, further concentrated benefits at the top 1% of income distribution, who received one-third of the total corporate tax reductions—we might assume due to higher corporate profits, dividends, and stock prices—and around 20% of the cumulative reductions. In contrast, the middle quintile of income earners only received around 8% of corporate reductions and 11.2% of cumulative (Tax Policy Center, 2018). An alternative to this kind of tax reduction, which only exacerbates existing inequality, is a progressive wealth tax: an annual tax collected on net household wealth rather than income, which would include all financial assets including fixed-income claims and non-financial assets (Gale & Vignaux, 2023).



**Figure 1.** Share of total wealth owned by the top 400 richest Americans under various wealth tax scenarios, 1982-present. *Note.* Adapted from [https://www.brookings.edu/articles/estimating-the-economic-impact-of-a-wealth-tax/#\\_ftnref2](https://www.brookings.edu/articles/estimating-the-economic-impact-of-a-wealth-tax/#_ftnref2). Copyright 2019 by Saez & Zucman.

Researchers Emmanuel Saez and Gabriel Zucman estimate that a wealth tax applied to the top 0.1% would have a tax base of 9 - 13 trillion dollars, assuming perfect enforcement (relaxing enforcement by 15% would reduce this base by 12.9%) (Saez & Zucman, 2019). According to a model they constructed in 2018, if a moderate wealth tax (3% marginal rate above \$1 billion) had been in place since 1982, the total share of wealth owned by the richest 400 Americans in 2018 would have been reduced from 3.5 to 2 percent (Figure 1).

Globally, the concept of a wealth tax is hardly a new idea and has even been successfully implemented in other countries. In Norway, a 1 percent tax is levied on wealth stocks exceeding NOK 1.7 million (USD 160,000), with the revenue split between municipalities and the central government. Switzerland levies varying wealth taxes on a cantonal basis, and Spain imposes a wealth tax to raise revenue for various social programs (Enache, 2024). While the potential success of this policy in the U.S. cannot merely be based on other countries with different economic systems and cultural standards, experts can utilize trends and patterns of past implementation to help create a plan that works best for the nation.

## 2.2. Criticisms of a Wealth Tax

Critics often oppose wealth taxes because of the threat of possible negative economic impacts. For one, they fear a reduction in capital stock, as a heavy tax on capital gains may disincentivize individuals from investing, a reality that would stunt economic growth by lowering companies' market values, making them vulnerable to takeovers and limiting possibilities for equity financing. However, the purpose of a progressive wealth tax is to target the *wealthy*, a relatively tiny portion of the population. A wealth tax with a 50 million dollar threshold would apply to only about 10% of total household wealth stock (Saez & Zucman, 2019). In addition, increased savings from the rest of the population (the majority) may balance out capital stock, as individuals in a more secure economic situation may become motivated to invest.

Because capital gains are taxed upon realization, this poses a possible setback to a wealth tax's implementation, as investors may be less incentivized to liquidate assets. Holding investments rather than selling them can reduce market liquidity, making it more difficult for other buyers to sell or purchase without causing significant price changes, as well as artificially inflating asset prices beyond their real values, increasing the risk of market bubbles and shocks. Several solutions include taxing investments as they accrue or instilling a tax lien that requires regular payments until the assets are sold.

Other critics complain of the difficulty in valuing certain assets, especially those without readily available market value (businesses, partnerships, S corporations, etc.) or those without a liquid market at all (collectibles), pointing out that tax due could unfairly exceed asset value. Saez and Zucman argue that for private businesses and non-liquid assets, the IRS already collects data to estimate value for tax purposes. In cases where market value is more difficult to determine, they recommend exploring methods of retrospective taxation, in which taxes are calculated

based on the asset's value once it produces income. Concerns about avoidance may arise—in France, the ISF (the country's version of a wealth tax), implemented in 1988, reportedly caused instances of capital flight, asset moving, and overall loophole exploitation, leading to the eventual repeal of the policy in 2017, although this was an unpopular political decision (Perret, 2021). As the implementation of a new wealth tax in the U.S. runs a similar risk of avoidance, they emphasize the importance of third-party reporting of annual wealth balances to prevent tax evasion, a method proven successful in other countries (Saez & Zucman, 2019).

Ultimately, critics' concerns about a wealth tax's impact on the economy, whether it be a stagnation of economic growth or valuation complications, can be mitigated through strategic taxing policies. The overarching goal of a wealth tax, to encourage economic activity across all class levels, counters claims that investment activity would decline.

### **3. Too Far or Just Enough?: An Examination of Universal Basic Income**

#### **3.1. An Overview of Universal Basic Income**

Administering a progressive wealth tax will generate funding for social programs and raise revenue to address potential debt concerns. But how exactly should the proceeds from said wealth tax be distributed?

Universal Basic Income (UBI), or a regular financial payment made to all adults regardless of condition, is hardly a new concept; its introduction into the American political scene can be traced back to the 1950s. Since then, most basic income initiatives have been small-scale and short-lived. The Alaskan government has given annual dividends to its citizens since 1982, sourced from a permanent fund financed by oil revenues, yet differs from traditional UBI standpoints in that it is non-redistributive, meaning the funds are not raised by taxing residents or via other wealth redistribution (Bidadanure, 2019). Historically, Nixon's Family Assistance Plan, which utilized a negative income tax—UBI's distant cousin—is the closest representation to a national execution of UBI, yet eventually expired due to opposition from multiple sides of the political spectrum. Welfare supporters declared the FAP amount insufficient, conservatives disliked a guaranteed annual income approach, and labor feared a threat to minimum wage (Hausman, 1973). A UBI plan of full magnitude and scale has never been implemented in a country of the U.S.'s economic caliber.

Recently, during the COVID-19 pandemic, presidential candidate Andrew Yang promoted a UBI plan, reintroducing the concept to the political floor. His "Freedom Dividend" involved a \$1000 per month payment to every American adult as a response to job replacement by automation (Mitchell, 2019), a relevant issue even after the pandemic with the rise of artificial intelligence and its rapidly growing capabilities (Holzer, 2022). In other words, the provision of a financial baseline for citizens would ease the transition into a time of rampant economic change brought about by unprecedented technological advancement, potentially increas-

ing employment. A study done in Stockton, California, reported that after the implementation of a UBI policy, full-time employment increased, due to the increase in flexibility individuals experienced, providing them with more time to apply for better jobs rather than working multiple (O'Dell, 2023). In theory, this increase in employment would proceed alongside reduced incarceration, homelessness, and emergency room use, overall reducing costs (Miller, 2021).

The provision serves as an affirmation of the right of individuals to exist in society: “just enough so no one is hungry or cold,” as researcher Daniel Nettle puts it (Nettle, 2018). With an economic floor to stand on, more individuals would have purchasing power to participate in the economy, generating increased consumer spending (Cheng & Maass, 2020). In the same way that insured people are more likely to take risks (Eling et al., 2021), those with an economic grounding constitute a larger portion of financial risk-takers within a population, corresponding positively with a nation’s macroeconomic output.

UBI assistance is simpler than modern federal income transfer systems, which consist of more than a hundred separate programs, each requiring its own bureaucratic monitoring (Nettle). Today’s system has little to do with alleviating poverty, as American society is set up to benefit successful professionals just as much as corporate executives. In 2019, nearly 55% of assistance went to households in the middle three income quintiles and over 10% went to the top quintile, rather than the most impoverished (Cogan & Heil, 2021). Thus, a UBI program could more effectively redistribute money from top to bottom.

Cogan and Heil’s prototype UBI, which phases down assistance by 50 cents for each dollar of earned income, sets each income guarantee at the household’s poverty threshold. The plan successfully eliminates poverty while only replacing a fraction of the current welfare system (Table 1). Still, annual payments would total \$648 billion, almost \$200 billion more than the programs it replaces, and the labor supply would theoretically decrease due to lowered work incentives (Table 2).

**Table 1.** Prototype UBI and the current system.

	Current System	Prototype UBI
Poverty rate (including in-kind benefits)	3.3%	0.1%
UBI outlays (billions)	--	\$648
Total transfer spending (billions)	\$2777	\$2980
Share of HHs receiving government assistance	--	
Share of transfers by quintile	62.0%	38.9%
Bottom quintile		66.5%
Middle three quintiles	35.0%	
Top quintiles	54.8%	37.9%

*Note.* Retrieved from “The Economic Impact of a Universal Basic Income” by J.F. Cogan and D.L. Heil, 2021, *Socialism & Free Market Capitalism: The Human Prosperity Project*. Copyright 2021 by the Board of Trustees of Leland Stanford Junior University.

**Table 2.** Labor supply effects of the prototype UBI.

<i>Share of tax units with...</i>	
Lower MTRs	9.3%
Higher MTRs	31.1%
<i>Labor supply effects among...</i>	
UBI recipients	-22.4%
All workers	-2.6%
Workers age 21 - 62	-2.9%
Effect on GDP	-1.3%

*Note.* Retrieved from “The economic impact of a Universal Basic Income” by J.F. Cogan and D.L. Heil, 2021, *Socialism & Free Market Capitalism: The Human Prosperity Project*. Copyright 2021 by the Board of Trustees of Leland Stanford Junior University.

UBI stands to create adequate pre-conditions for those willing to work. Some suggest self-improvement requirements on recipients (Cogan & Heil, 2021), which might consist of education or job search requirements, to strike a balance between financial support and encouraging economic growth, a possibility that policymakers may experiment with. Critics of such propositions argue that these requirements would defeat the universality of UBI, especially since the labor market is not the only way one can contribute to society.

### 3.2. Implementation of UBI

The politics of the matter cannot be ignored: an important challenge lies in convincing Americans to contribute tax money to fulfill a UBI-style program. With an upsurge in technological development and automation, a possible value-added tax (VAT) on goods and services could help fund UBI without excessively burdening consumers (Mitchell, 2019); yet a VAT can disproportionately impact lower-income earners due to the increased inelasticity of demand for certain goods.

Researchers Cogan and Heil find that while a national UBI plan can alternatively be financed with current national budget expenditures, this can only be accomplished if it replaces all current federal income transfer programs, increasing federal spending and thus taxes or government borrowing. Partial replacement could exacerbate inequity, as those who receive UBI may end up with more money after taxes than those who do not receive the assistance (Cogan & Heil, 2021). However, other research finds that UBI can act in conjunction with welfare programs to maximize impact. For example, some researchers have suggested the combination of UBS, or universal basic services, and UBI, to address different needs stemming from a lower income, as UBI is at times criticized for being market-reliant. UBS would provide essential services like transport and healthcare, ensuring access without relying on market availability, UBI can support needs that

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require personal choice, such as clothing and food (Buchs, 2022). Thus, policymakers must consider the social implications of a complete replacement, researching and refining UBI implementation plans that truly benefit society.

#### 4. Conclusion

To address the persisting concern of wealth inequality in the United States, economists and policymakers must consider exploring a more effective tax and redistribution initiative. Currently, the extreme concentration of wealth at the top 1% of income earners, which contributes to the drastic wealth disparity in the U.S., is substantiated by insufficient tax rates on investment holdings. Recent policy initiatives like the Tax Cuts and Jobs Act in 2017 exacerbated wealth concentration, worsening the uneven tax burden and necessitating change.

A wealth tax targets the top 1%, or those who own most of their wealth in investments taxed at lower rates than wages and who are consistently able to evade heavy taxation. Subsequent wealth redistribution through UBI would minimize the financial burden on the middle and lower classes while uplifting those in need of a basic income. Through increased research and enforcement mechanisms, policymakers can develop more accurate methods on evaluating wealth. More empirical data is needed—policymakers can consider strengthening the design of existing tax strategies on capital income and intangible assets in order to gauge economic impact and feasibility before they proceed with a full wealth tax. Regarding concerns about a wealth tax's theoretical impact on the economy due to investment discouragement, an effective redistribution method can encourage more of the population to invest, facilitating growth.

A wealth tax could provide the necessary funding for a Universal Basic Income plan to successfully redistribute revenues to those in need, providing a financial baseline for all individuals and simplifying current wealth transfer programs. As separate state governments have tested UBI in the past, national policymakers can consider requesting that states run pilot programs that combine wealth taxes and UBI to measure effectiveness and risk. For those who struggle to put dinner on the table every night, UBI could provide a stepping stone towards prosperity, enhancing economic mobility, financial security, and potentially entrepreneurial and innovative spirit.

If UBI were funded by a wealth tax, Americans would effectively receive a wealth redistribution that could mitigate the effects of extreme economic stratification. It comes down to finding the right balance between UBI's potential costs, generosity, and effect on labor. Alongside a cumulative wealth tax that prevents excessive tax breaks and generates more federal monies to spend on distribution programs, UBI could be the next step in a post-automation world, spurring job creation and lifting millions of Americans above the poverty line.

#### Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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