

Wealth Taxation in Germany

We imply a wealth taxation schedule proposed by Thomas Piketty in his book, “Capital and Ideology” published in the year 2020 to the Household net wealth data, collected through the SOEP “Socio-Economic Panel” survey of DIW “German Institute for Economic Research”.

Our research objective is to evaluate if a wealth tax, such as the one proposed by Thomas Piketty, would reduce wealth inequality in the short or long run. To answer this question, we empirically apply a wealth tax on the net household wealth, and measure the change in the distribution of wealth, both in the short and in long run. We later analyze if a wealth tax is effective in reducing wealth inequality specifically, and economic inequality in general.

We also explore other possible wealth tax proposals with varying levels of progressivity and thresholds; to propose alternative wealth taxation methods as those proposed by Thomas Piketty. We argue, that the main purpose of taxation should be to help the poor, and not to punish the rich. Our tax proposals are focused on ensuring a minimum standard of living for those who have no or very little wealth. We then calculate the tax rate necessary for funding such schemes and find out how much wealth tax is required on the rich to finance such wealth transfers.

We take the level of wealth inequality as given. We will not explore how much wealth is unequally distributed in the German economy, rather our job is to find ways how to reduce the existing wealth inequality – which is already explored and documented by other studies.

Our empirical analysis uses the trusted household survey in Germany, namely the DIW’s SOEP survey. use version 36 of the SOEP survey data which was published in 2021 and includes data from the year 1984 to 2019.