

Press release

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KOF-NZZ Economists Survey: economists tend to want to tax investment income more heavily than earned income

In August, KOF and Switzerland's *Neue Zürcher Zeitung* (NZZ) newspaper surveyed economists at Swiss universities on the so-called '99 per cent Initiative' and the associated inequalities of income and wealth. 45 per cent of these academics are in favour of higher taxation of investment income, 40 per cent would like to keep the current tax rates unchanged, and 15 per cent would opt for higher taxation of earned income.

On 26 September this year the Swiss electorate will vote on a popular initiative aimed at reducing the tax burden on wages while taxing capital 'fairly' (unofficially known as the '99 per cent Initiative'). The 99 per cent Initiative aims to promote social justice by taxing investment income (e.g. interest and dividends) above a certain allowance 1.5 times as much as earned income. The resulting extra revenue would be used to cut income taxes for people on low to average wages and salaries and to fund spending on welfare benefits, education and health. Economists were asked whether, from an economic perspective, earned or unearned income should be taxed more heavily. 45 per cent are of the opinion that investment income should be taxed (slightly) higher. 40 per cent, on the other hand, are in favour of keeping the current tax rates unchanged, and 15 per cent would prefer to see (slightly) higher taxes on wages.

Inheritance tax, gift tax and education are best suited to reducing inequality

But is the taxation of investment income an appropriate means of reducing excessive inequality, or are other tax policy instruments better suited? The economists surveyed see inheritance tax and gift tax as the most effective tax policy instruments. The second and third most frequently mentioned options were wealth taxes and investment income taxes. In contrast, corporate taxes, taxes on earned income, and value added taxes are less popular.

As far as non-tax policy instruments are concerned, economists are relatively unanimous: securing educational opportunities is seen as the primary way to reduce inequality. The subsidisation of social care costs, the introduction of a minimum wage and additional funding for healthcare services are also suitable non-tax policy instruments. On the other hand, the economists surveyed consider the expansion of welfare benefits and monetary policy instruments to be less important.

The survey respondents also indicated which type of instruments should be given greater weighting in order to reduce excessive inequality. 39 per cent of economists are in favour of giving equal weighting to these two policy options. When choosing between the two types of instrument, they prefer to give greater weighting to tax policy options (32 per cent) than to non-tax policy ones (23 per cent). The remainder would use neither instrument.

Coronavirus crisis is exacerbating income inequality

Economic inequality has been the subject of growing public debate in recent months against the backdrop of the 99 per cent Initiative and the coronavirus pandemic. Almost three-quarters of the academics responding to the Economists' Survey gave the assessment that inequality of disposable incomes in Switzerland has risen (sharply) as a result of the coronavirus crisis. More than half of them also fear higher inequality in the long term. Nevertheless, 39 per cent of survey respondents firmly believe that the pandemic will have no impact on income distribution in the long run.

According to the survey results, half of respondents believe that the current level of *wealth inequality* in Switzerland tends to inhibit long-term economic growth, while 16 per cent reckon that it tends to stimulate growth. A smaller proportion (40 per cent) see the current level of *income inequality* as tending to constrain growth, whereas 26 per cent of economists consider income inequality to be growth-enhancing. The remainder believe that it has no effect.

The KOF-NZZ Economists Survey covers topics relevant to economic policy in Switzerland and provides a means of making the views of academic research economists visible to the public. KOF's media partner in the preparation and interpretation of the Economists Survey is Switzerland's *Neue Zürcher Zeitung* (NZZ) newspaper. In August, KOF and the NZZ conducted a survey on the so-called '99 per cent Initiative' and the associated inequalities of income and wealth in Switzerland. 824 economists were contacted and responses were received from 142 economists at 18 institutions.

Further information on the Economists Survey and a graphical representation of the findings is available here: <https://kof.ethz.ch/en/surveys/experts-surveys/economists-surveys.html> →

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