

Replacing Monetary Policy by a Wealth Tax at the ZLB

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wealth tax : $\tau_w(t)$

wealth : government bonds $b(t)$

- Tax liability of household: $\tau_w(t) \times b(t)$
- Budget constraint:

$$\dot{w}(t) = [\underbrace{r - \tau_w}_{\text{wealth tax lowers returns on wealth}}] w(t) + [1-u] a l - [1 + \tau(c)] c - \frac{T}{P}$$

wealth tax lowers returns on wealth

- Household problem is same except that real returns on wealth are $\underline{r - \tau_w}$ instead of r
- Everything is same except AD curve

$$y^d = \left[\frac{s - (r - \tau_w)}{\sigma'(c)} \right]^{\frac{1}{\epsilon}} \frac{1}{[1 + \tau(c)]^{\epsilon - 1}}$$

$$y^d = \left[\frac{s - r + \tau_w}{\sigma'(c)} \right]^{\frac{1}{\epsilon}} \frac{1}{[1 + \tau(c)]^{\epsilon - 1}}$$

by raising wealth tax, push people to consume (instead of saving) & boost AD
↳ but wealth tax is not subject to τ_{LB}