

Housing Wealth and the Welfare State: Substitutes or Complements?

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1 Introduction

Bastani and Waldenström (2020) discuss the role of capital taxation in advanced economies and the optimal taxation of property. Property taxes are a form of wealth taxes and are usually designed as an annual tax on real property using either land or buildings (or a combination of the two) as tax basis. Economists often argue in favour of property taxes with early supporters including Henry George advocating for a land value tax already in the late 19th century (George, 1879) as windfall gains resulting not through individual effort or ingenuity, but instead as a result of societal change. “George prescribed the land-value tax as a way of putting some of that collectively produced wealth back toward the commonweal. His supporters, often referred to as ‘Single Taxers,’ advocated eliminating all other taxes and raising revenue solely through this tax, which they viewed as the most equitable and just way of funding the state” (Neklason, 2019).

Property taxes usually target current real estate market values, include the value of underlying land. Some versions use the land only as tax basis (see Larson and Shui, 2020, for the US case). Such taxes are argued to be highly efficient as a consequence of the immobility of land and attached structure. Relocation of the tax base is thus ruled out and tax avoidance is in that respect limited.

Furthermore, fairness arguments can be employed: First, when contrasted against alternative investments in the form of business capital, owner-occupied housing assets usually receive favourable tax treatments (see Merz, 1965; Hendershott and Slemrod, 1982, for the US case). In Europe, in 2017 nine out of the by-then 27 member states of the European Union had in place a mortgage interest tax relief (see Barrios et al., 2019). Second, improvements put aside, changes in value have little connection to individual effort yet can rather be classified as a windfall return. This is particularly true for changes in value of the underlying land Bastani and Waldenström (2020) thus argue in favour of a progressive property tax¹ yet mention the discrepancy between economists’ recommendation and the rather negative sentiment of the general public towards any type of wealth and, in particular, property taxation. Moreover, they emphasise that there is little research on what determines the (un-)popularity of property taxes.

Stantcheva (2020) investigates how people understand, reason, and learn about income and wealth taxes in the US by conducting surveys on US residents. As a result she elicits a mental model explaining how people perceive and argue about income and estate taxes. She distinguishes three underlying reasons leading to disagreement: First, there may be disagreement based on (perceived) economic effects and the suitability of a policy to achieve any given goal. Second, benefits and costs related to a certain policy may “assess the benefits and costs to them and those they care about in contrasting ways.” Finally, people may differ in what they perceived as fair and just.

Almost unrelated to these debates about tax regimes and the support of certain wealth and property-related taxes, another strand of literature investigates the housing-welfare state relationship. Lowe (2004) argues that owner-occupation, and by implication ‘housing’ generally, is a key element in patterning welfare states. Furthermore, “[h]ousing is the only major capital-based service which comes within the compass of the welfare state where households can purchase the capital themselves and, without any specialist training, can use it to self-provision the service it produces” (Fahey and Norris, 2011). Home-ownership is associated with high spendings during early-adulthood and low costs in old-age. This pattern translates into a lower need of old-age

¹Bastani and Waldenström (2020) report progressive property taxes within Europe for Denmark, Finland, France, Germany and Norway.

pension provisions meanwhile favourable financing support during early adulthood.

We contribute to the combined discussion about tax and welfare state regimes. Refraining from normative assessments, we investigate how well people understand the link between collective (“welfare state”) and individual insurance regimes. Specifically, we aim to elicit whether homeownership is considered as a substitute or a complement to collectively financed services. In this spirit, we conduct an *information experiment* incorporated into a large web-based survey-experiment among Luxembourgish home-owners.

We hypothesise the support of progressive property taxation may be determined by the perception of welfare state as complements and/or substitutes to home-ownership. We trigger specific associations in a strongly framed information experiment.

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