The Triumph of Injustice

TaxJusticeNow.org

Harvard Stone Lecture 2019

Emmanuel Saez
Gabriel Zucman
Three main novelties:

- How much each social group pays in taxes, from early 20th century to today
- Elements for a new 21st century tax system, reconciling globalization and progressive taxation
- Tool for a democratic fiscal debate

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The top 1% U-shaped income share

Top 1% Pre-Tax Income Share, 1913-2018

Piketty-Saez (reported income with capital gains)
The top 1% U-shaped income share

Top 1% Pre-Tax Income Share, 1913-2018

Piketty-Saez-Zucman (comprehensive income)

Piketty-Saez (reported income with capital gains)
Top 1% gains as large as losses of the bottom 50%
1946–1980: growth equitably shared
(triumph of representative agent model)

Annual pre-tax income growth, 1946-1980

Average income growth: 2.0%
After 1980: people’s growth has little to do with macro growth

Annual pre-tax income growth, 1980-2018

Top 0.001%
P99.99
P99.9
P99

Macro growth: 1.4%

People's growth: 0.65%
The growing concentration of wealth at the very top

Forbes 400 wealth share (% of US wealth)
The Regressivity of the Current US Tax System
A comprehensive view of the US tax system post-Trump tax reform

Considering **all taxes paid at all levels of governments in 2018**, we find that:

- Contrary to widely held view, US tax system is not progressive
- For the first time, **billionaires pay lower tax rates than the working-class**
- Top 400 effective tax rate = 23% (incl. corporate taxes, etc.) vs. 25-30% for working & middle classes
- Regressive taxation: a new engine of inequality
The US tax system:
A giant flat tax regressive at the top

Average tax rates by income group in 2018 (% of pre-tax income)

- Average tax rate: 28%
- Working class (average annual pre-tax income: $18,500)
- Middle-class ($75,000)
- Upper middle-class ($220,000)
- The rich ($1,500,000)
The US flat tax: Composition by type of tax

Average tax rates by income group in 2018 (% of pre-tax income)

- Corporate & property taxes
- Consumption taxes
- Payroll taxes
- Individual income taxes
- Estate tax

Explaining the US flat tax

Why the poor pay a lot:

▷ Very regressive sales taxes: US has a poor man’s VAT: only on goods, not services

▷ ↑ payroll taxes despite ↓ minimum wage

Why the rich pay little:

▷ Super rich don’t need to realize much income: Buffett reported $10m in income with wealth of $65b

▷ Collapse of corporate taxation (fed. corporate tax revenue almost halved in 2018 vs. 2017)
Adding health insurance premiums (privatized poll tax) to the picture

Everybody needs health care and it is expensive

- All advanced countries except US fund it with taxes
- After Obamacare, health insurance mandatory. Mostly done through employers.
- Average cost: $13,000 per covered worker

**Health insurance premiums = huge poll tax on** American workers administered by employers on behalf of government

- Highly regressive and not sustainable
The US tax system: flat... or massively regressive?

Tax rates by income group in 2018 (% of pre-tax income)

- Health insurance poll tax
- Individual income taxes
- Payroll taxes
- Corporate & property taxes
- Consumption taxes
- Estate tax
Long-Run Changes in Tax Progressivity in America
For the first time in 2018, billionaires paid lower tax rates than the working class.
Including health poll tax, working-class pays more than the top 0.1%
The shrinking progressivity of the US tax system

Average tax rates by income group (% of pre-tax income)

- Working class
- Middle-class
- Upper middle-class
- The rich

Year:
- 1950
- 1960
- 1970
- 1980
- 1990
- 2000
- 2010
- 2018
Why has tax progressivity collapsed?

Three main drivers of declining progressivity:

1. Collapse in capital taxation, itself reflecting changes in politics and ideology
2. Choice to tolerate certain forms of evasion. Let avoidance fester → slash rates → repeat
   - 1980s: individual income tax → Reagan 1986
   - 2000s-2010s: corporate tax → Trump 2017
   - But nothing inherent in globalization prevents K taxation: other choices are possible
The key role of the corporate tax in taxing the rich

Average tax rate of the top 0.1% (% of pre-tax income)
The slow agony of the corporate tax

Federal tax revenue (% of national income)

Individual income tax

Corporate income tax
Letting tax evasion fester: The case of the corporate tax

Profits booked by US firms in tax havens (% of foreign profits of US firms)

- Ireland
- Switz.
- Caribbean
- Singapore
- Netherlands & Luxembourg
- Puerto Rico

Graph showing the percentage of foreign profits of US firms booked in tax havens from 1966 to 2017.
Paper profits are moving to tax havens; real activity less so
Towards the death of the progressive income tax?

Collapse in global corporate tax rate (halved since 1980s)

Key problem: **no progressive income taxation possible without high enough corporate tax rate**

▷ With low corporate tax rate, the rich incorporate and retain earnings within their firm → save tax free

▷ Individual income tax becomes mere consumption tax

Any progressive plan must start with a strategy to end inter’l tax competition. **Good news is: this is doable.**
Elements for a 21st Century Tax System
Our approach: three key principles

1. **Reconcile globalization with tax justice**
   - A plan to stop corporate tax evasion and tax competition

2. **Tax extreme wealth to restore progressivity**
   - Wealth tax on ultra-rich to reduce wealth concentration and protect democracy

3. **Fund health care and education** (pre-K, university) for all by **reinventing the income tax**
   - New national income tax in lieu of current poll tax

One among many possible sets of solutions. Simulate yours! TaxJusticeNow.org
Our proposed US tax revolution: Who would pay what

Average tax rates (% pre-tax income)

Effective tax rate in 2018 (incl. health insurance poll tax)

Our reform
Reconcile globalization with tax justice

**How the US could tax US firms:**

- 25% minimum tax on country-by-country profits
- Ex: If Apple pays 2% on the profits it books in Ireland, US would collect the missing $23\% = 25\% - 2\%$

**How the US could tax foreign firms:**

- Sales apportionment of global tax deficit
- Ex: if Nestlé pays 2% globally and makes 30% of its sales in the US, US would collect $30\% \times (25\% - 2\%)$

Hard to avoid, can be done by a big country *unilaterally*
The treaties of globalization are not set in stone. They can be rewritten:

- International agreement on 25% corporate minimum tax as pre-condition for further trade liberalization
- **Putting taxes at the heart of future trade deals**
- Defensive measures: sanctions for non-cooperative havens (approach followed successfully to force Swiss banks to cooperate)

→ **Nothing inherent in globalization prevents high K taxation.** Corporate tax could rise back to 50%.
America’s wealth tax tradition

US pioneered wealth taxation:

- Wealth taxes as far back as 17th century in Northern colonies
- Not only on real estate but also financial assets and other personal property

Fight over wealth taxation: key in US fiscal history

- Massachusetts: wealth taxation until 1915 (attacked by Harvard profs who wanted to tax housing only [regressive], citing European example...)
- Virginia: slave-holding oligarchy existential fight against wealth taxes → archaic poll & sales taxes
America’s tradition of progressive taxation

**US pioneered steeply progressive taxation**
- ≥70% estate tax rate 1936–1980
- ≥90% top income tax rates
- And very big corporate tax on profits at source

**Legal maximum income/wealth: a US invention**
- Concerns about oligarchic drift & capture span time & political spectrum, from Madison to FDR
- Europe long seen as oligarchic anti-model
The progressive fiscal tradition in America

Top marginal tax rates in the US

Income

Corporate

Estate
Reinventing wealth taxation for the 21st century

3 goals: 1) generate revenue to complete the US social state, 2) restore tax progressivity, 3) curb extreme wealth

▷ Warren tax: 2% above $50m, 3% above $1bn:
  ▷ ~ generate revenue sustainably (≈ 1% GDP)

▷ Sanders tax: 1% above $32m, 2% above $50m, ..., 5% above $1bn, 8% above $10bn:
  ▷ ~ abolish billionaires gradually
The Warren wealth tax would have a big impact on tax progressivity at the top.
The Warren and Sanders wealth taxes and progressivity

% of pre-tax income with Sanders wealth tax

2018 tax rates with Warren wealth tax

Top 400
If the Warren and Sanders wealth taxes had been in place since 1982...

Forbes 400 wealth share (% of US wealth)

Actual share of wealth owned by the Forbes 400

With Warren wealth tax (3% rate above $1bn)

With Sanders wealth tax (5% above $1bn graduated to 8% above $10bn)
If the Warren and Sanders wealth taxes had been in place since 1982...

### Long-Term Wealth Taxation and Top Wealth Holders

<table>
<thead>
<tr>
<th>Top Wealth Holder Source</th>
<th>Current 2018 wealth ($ billions)</th>
<th>With Warren wealth tax (3% above $1b) since 1982</th>
<th>With Sanders wealth tax (5% above $1b up to 8% above $10b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Jeff Bezos Amazon (founder)</td>
<td>160.0</td>
<td>86.8</td>
<td>43.0</td>
</tr>
<tr>
<td>2. Bill Gates Microsoft (founder)</td>
<td>97.0</td>
<td>36.4</td>
<td>9.9</td>
</tr>
<tr>
<td>3. Warren Buffett Berkshire Hathaway</td>
<td>88.3</td>
<td>29.6</td>
<td>8.2</td>
</tr>
<tr>
<td>4. Mark Zuckerberg Facebook (founder)</td>
<td>61.0</td>
<td>44.2</td>
<td>28.6</td>
</tr>
<tr>
<td>5. Larry Ellison Oracle (founder)</td>
<td>58.4</td>
<td>23.5</td>
<td>8.5</td>
</tr>
<tr>
<td>6. Larry Page Google (founder)</td>
<td>53.8</td>
<td>35.3</td>
<td>19.5</td>
</tr>
<tr>
<td>7. David Koch Koch industries</td>
<td>53.5</td>
<td>18.9</td>
<td>8.0</td>
</tr>
<tr>
<td>8. Charles Koch Koch industries</td>
<td>53.5</td>
<td>18.9</td>
<td>8.0</td>
</tr>
<tr>
<td>9. Sergey Brin Google (founder)</td>
<td>52.4</td>
<td>34.4</td>
<td>19.0</td>
</tr>
<tr>
<td>10. M. Bloomberg Bloomberg LP (f.)</td>
<td>51.8</td>
<td>24.2</td>
<td>11.3</td>
</tr>
<tr>
<td>11. Jim Walton Walmart (heir)</td>
<td>45.2</td>
<td>15.1</td>
<td>5.0</td>
</tr>
<tr>
<td>...</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total top 15</td>
<td>942.5</td>
<td>433.9</td>
<td>195.7</td>
</tr>
</tbody>
</table>
The progressive fiscal tradition in America

Top marginal tax rates in the US

Income

Corporate

Estate
How can a US wealth tax succeed when it failed in Europe

European wealth taxes failed for 3 reasons that can be overcome in US context

- **Mobility**: EU wealth taxes based on residence while US tax is based on citizenship (+ exit tax)

- **Offshore evasion**: EU did not crack down on offshore tax evasion while US passed FATCA in 2010 requiring foreign banks to report accounts of US persons to IRS

- **Exemption threshold** was too low in EU (∼ $1m) creating hardship for some illiquid millionaires. At $50m+, liquidity issues vanish
Funding health care for all: the national income tax

Other countries use VAT and payroll taxes to fund health. But these taxes are regressive & have narrow base

▷ VAT: exempts saving and big sectors (finance, health, education): VAT base $\approx 40\%$ of national income only

▷ Payroll tax: exempts capital income (growing fast)

Our solution: a tax on all of national income

▷ Base: all labor costs + business profits + interest + foreign dividends ($\approx 94\%$ of national income)

▷ 6% rate enough to fund health care for all & abolish private poll tax $\rightarrow$ big tax cut for bottom 90%
What boosts saving: regulations, not tax incentives

US macroeconomic capital tax rate vs saving rates

- National saving rate
- Capital tax rate
- Private saving rate
TaxJusticeNow.org

Taxes of the people, by the people, for the people
For the first time in over a century, billionaires now pay lower tax rates than their secretaries.

TAX JUSTICE NOW
Reinventing fiscal democracy

What the user can do:

▷ Change existing taxes: income, corporate, estate, etc. Can change tax rates and enforcement.

▷ Create new taxes (wealth tax, VAT, national income tax, ...)

What the website does:

▷ Show impact on tax progressivity and revenue

▷ User-friendly: move levers or tick boxes

▷ Data, methodology, results are all posted online
Starting from who pays what today...

**Net Surplus: $0**

0% of National Income in 2019

Private health insurance included as an extra tax
You can construct Warren’s wealth tax...

see impact on revenue
tax progressivity

Add a wealth tax
Select a plausible evasion tax rate...
Change other taxes...
Tax simulator models the candidates tax plans...

Proposed tax plans
(including private health insurance as tax)

Total tax rate (% of income)

Income group

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

0% 10% 20% 30% 40% 50% 60% 70% 80%

Top 1%

0.1%

Top 400

Sanders

Warren

Biden

Trump

(2018)
You can complete candidates tax plans...
Conclusion
Main findings

Widely held view that external or technical constraints make tax justice impossible is wrong

▷ Globalization does NOT prevent progressive taxation
▷ Tolerating tax evasion is a choice
▷ There is an infinity of possible future policy paths

Economists can be helpful in

▷ making possibilities concrete: TaxJusticeNow.org
▷ making sure the plumbing is done well (E. Duflo)