The Triumph of Injustice

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THE TRIUMPH OF INJUSTICE
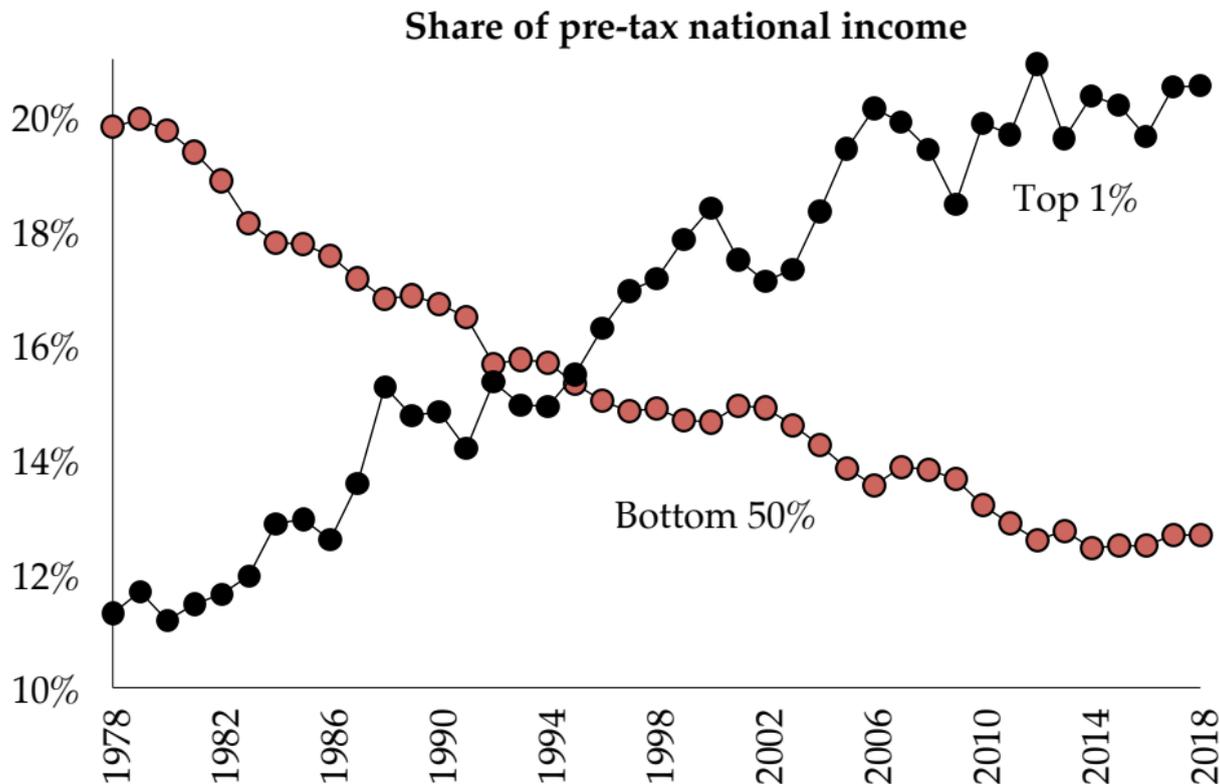
How the Rich Dodge Taxes and How to Make Them Pay

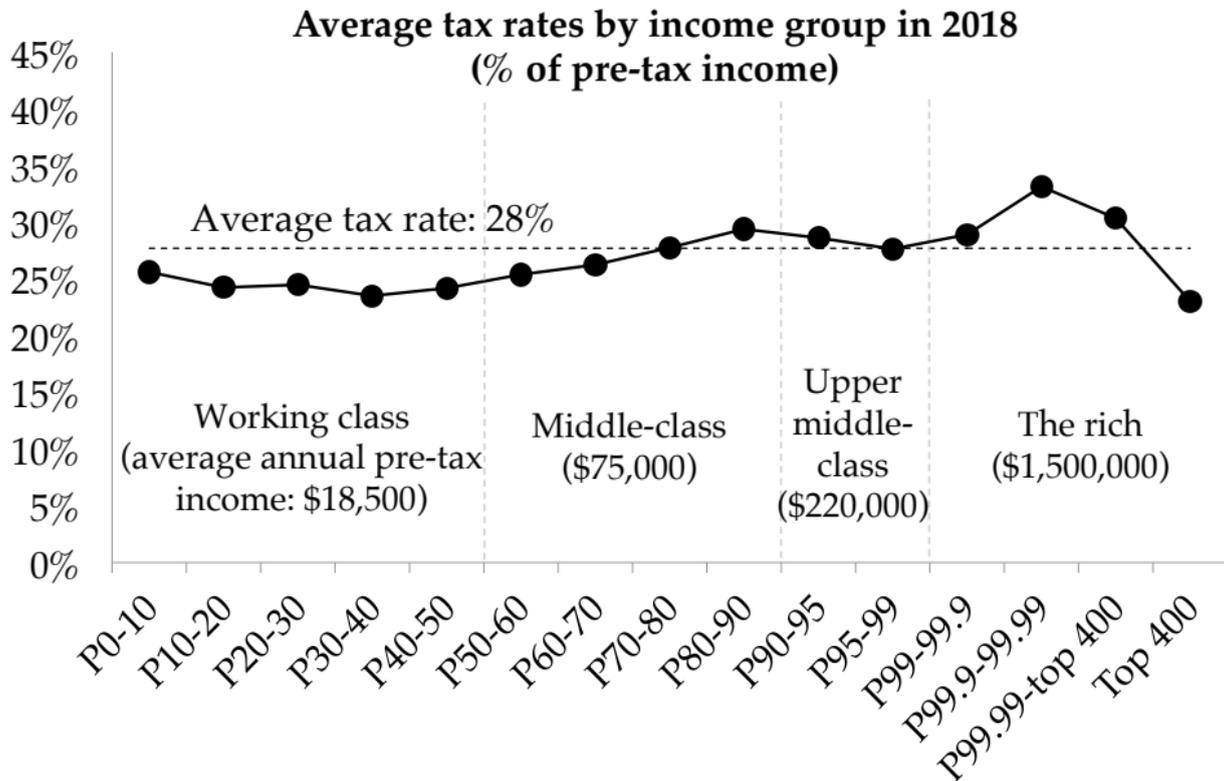EMMANUEL SAEZ AND GABRIEL ZUCMAN

This book:

▷ The rise of tax injustice

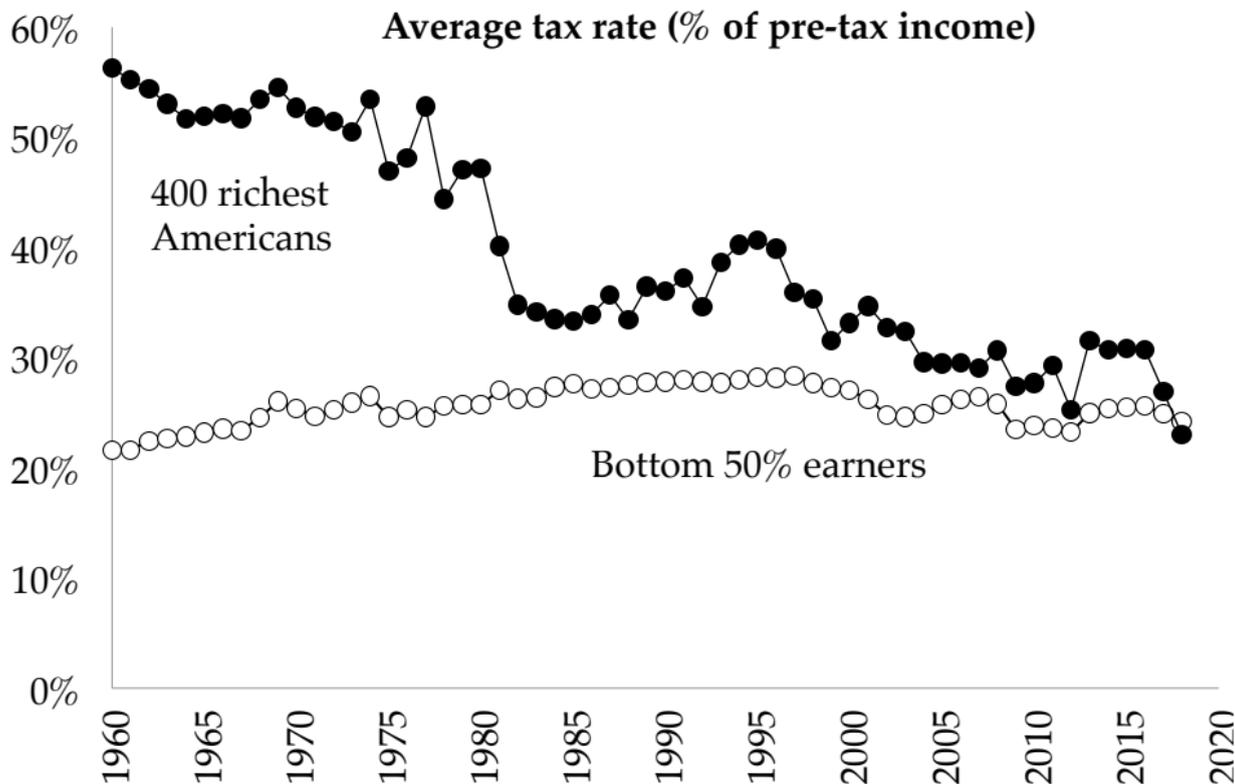▷ The case of the US

▷ A new tax system for the 21st century
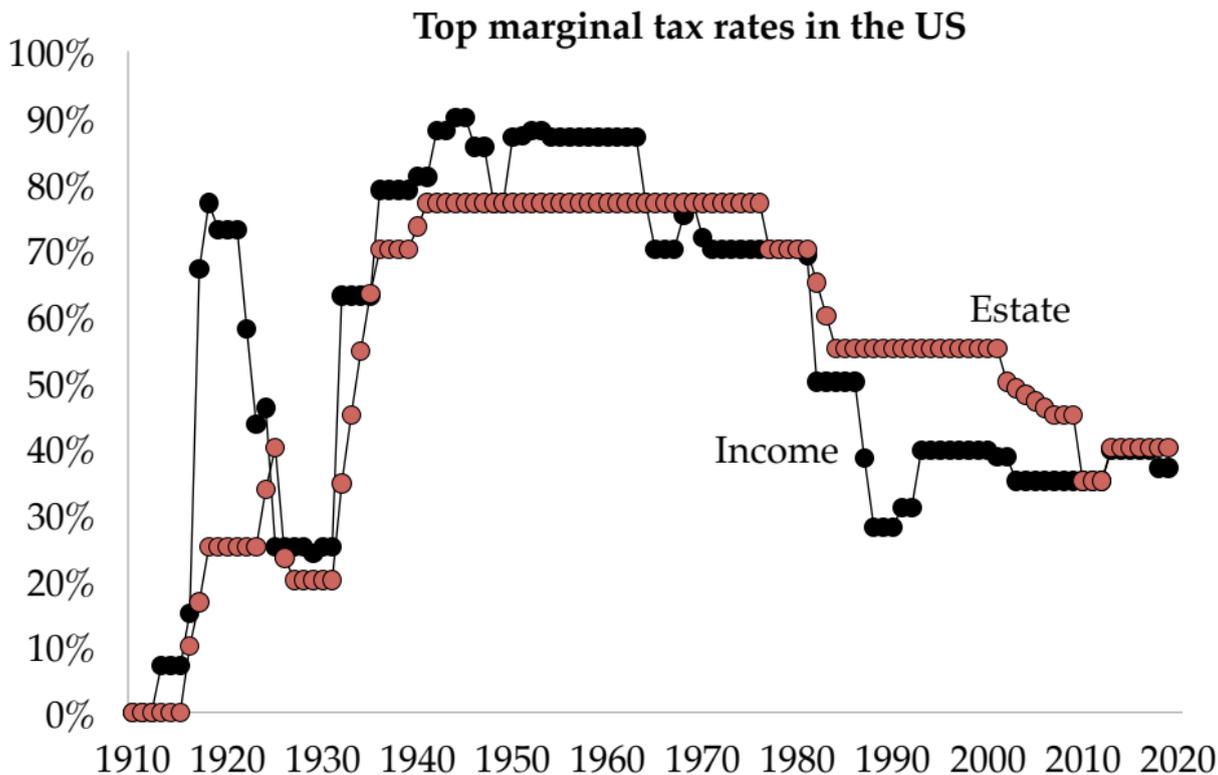
The rise of income inequality in the United States

Share of pre-tax national income

The US tax system today:
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)

For the first time in 2018, billionaires paid lower tax rates than the working class

Average tax rate (% of pre-tax income)

400 richest Americans

Bottom 50% earners

The progressive fiscal tradition in America

Top marginal tax rates in the US

Letting tax evasion fester:
The case of the corporate tax

Profits booked by US firms in tax havens
(% of foreign profits of US firms)
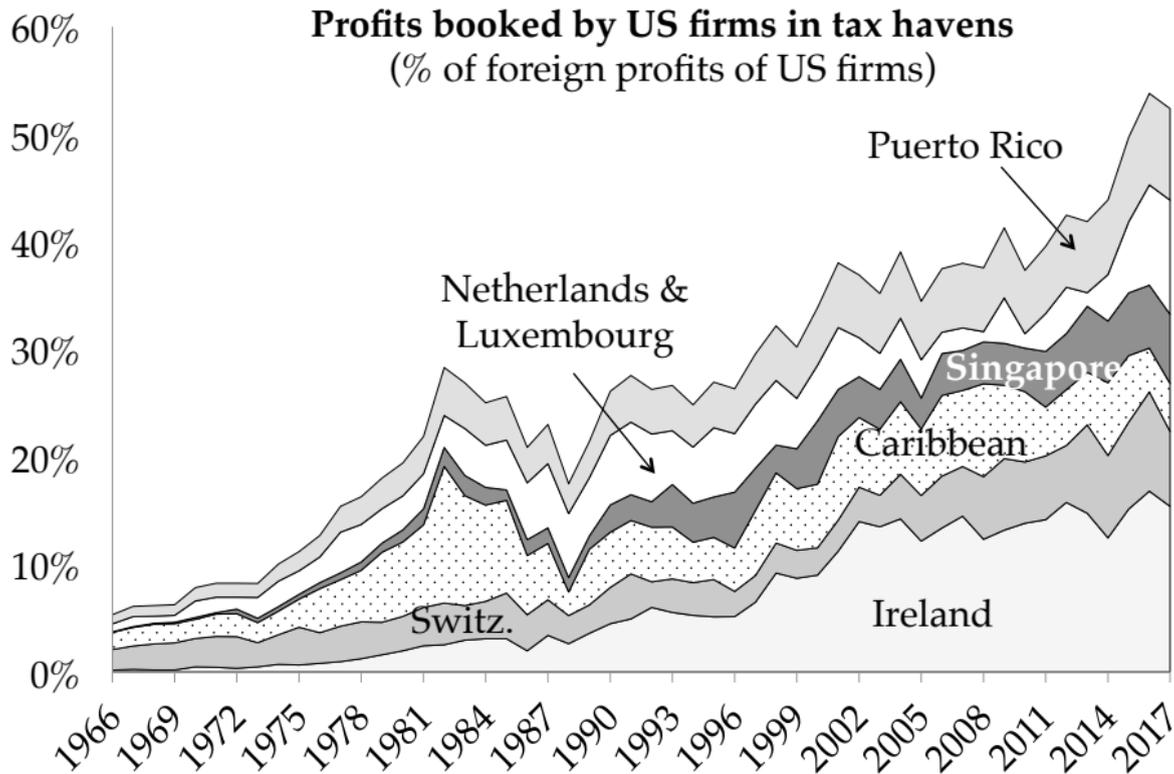
The slow agony of the corporate tax

Federal tax revenue (% of national income)

Individual income tax

Corporate income tax
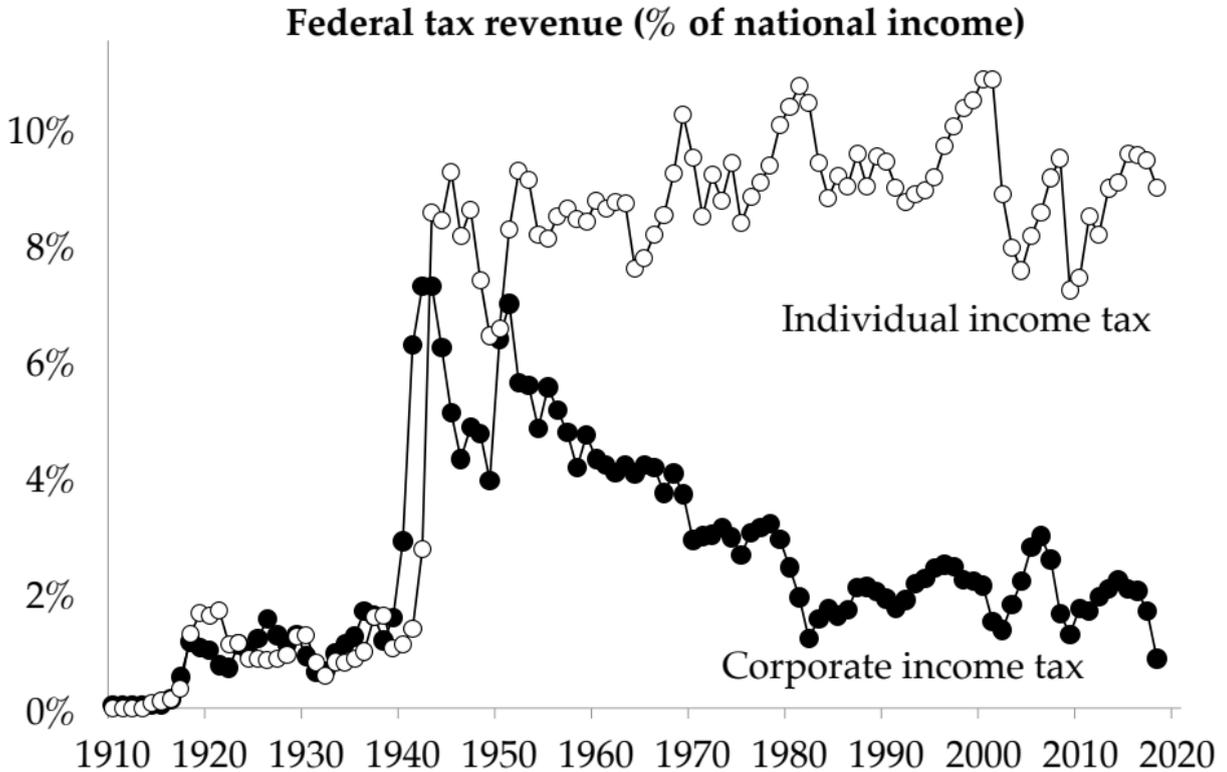
Reconcile globalization with tax justice

▷ Collect tax deficit of multinational firms

▷ Can be done by any big country unilaterally

▷ Usher in another globalization

Taxing wealth

▷ The income tax is not enough to tax the super rich: Warren Buffett

▷ Learn from the European experience: tax expatriates, fight wealth concealment

▷ Progressive wealth taxation is highly popular

Conclusion

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

  ▷ Technically nothing in globalization prevents progressive taxation

  ▷ Tolerating tax evasion is a choice

  ▷ There is an infinity of possible future policy paths

Economists can be helpful by showing multiplicity of possible futures, and as plumbers—fixing leaks

Supplementary Slides

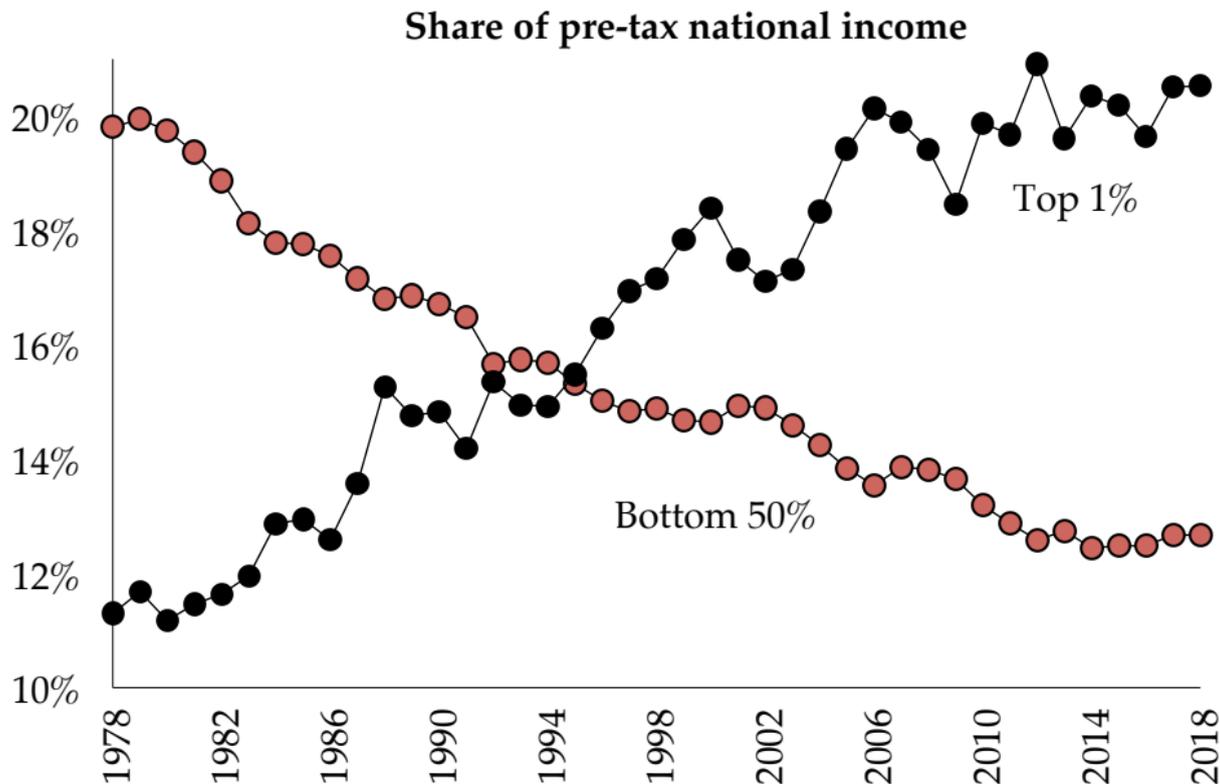# Including health poll tax, working-class pays more than the top 0.1%

Average tax rate (% of pre-tax income)

Top 0.1%

Bottom 50%
(incl. health insurance
poll tax)
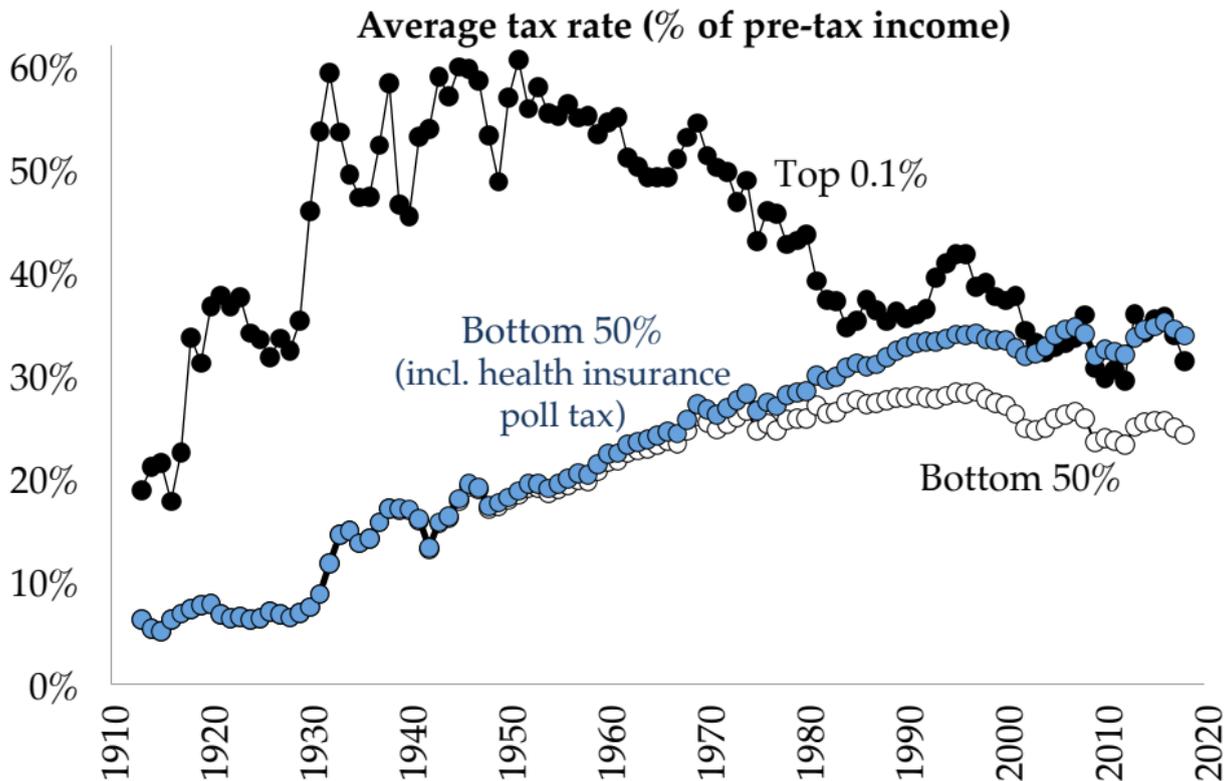
Bottom 50%

Two engines of inequality: ↘ taxes at the top, ↗ health costs for the rest

- ▷ **Bottom 50% average pre-tax income has stagnated since 1980, at $18,500 per adult**

- ▷ Out of this stagnating income, rising share goes to taxes & health → impedes wealth accumulation

- ▷ At the top, opposite process: booming income and falling taxes → snowballing wealth accumulation
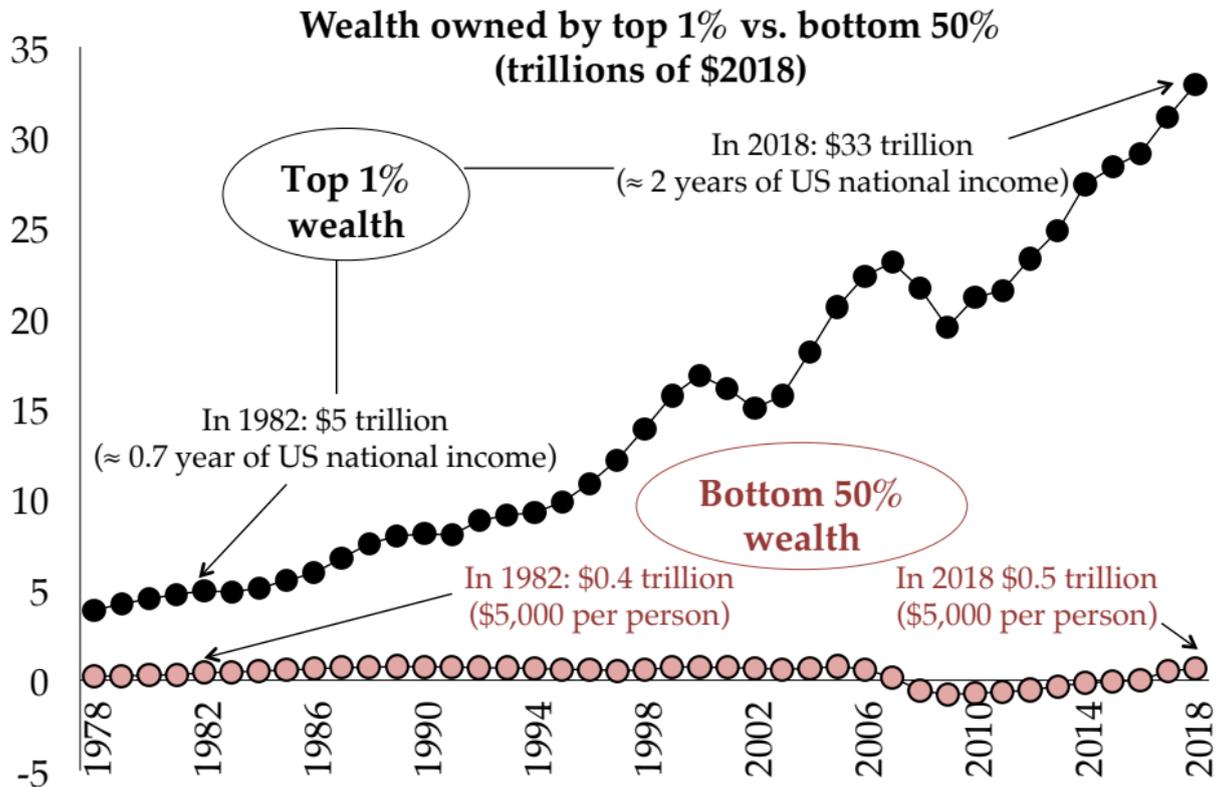
There's no fixing inequality without fixing taxes:

- ▷ Progressive taxation is the safeguard that kept top wealth accumul. under control in 20th c., now gone

- ▷ **The health care question is a tax question:** what should replace the private poll tax?
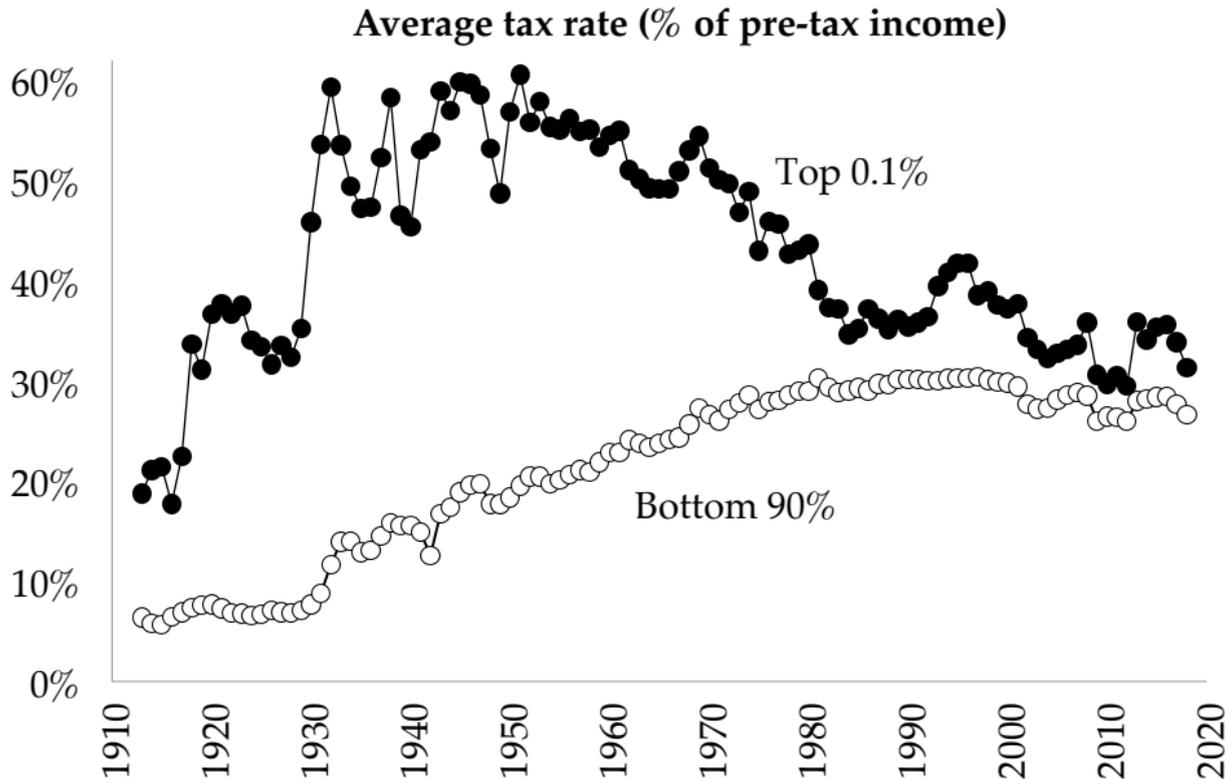
The rise of income inequality in the United States

Share of pre-tax national income

Snowballing wealth accumul at the top. Wealth stagnation at the bottom.

Wealth owned by top 1% vs. bottom 50% (trillions of $2018)

Top 1% wealth

In 2018: $33 trillion (≈ 2 years of US national income)

In 1982: $5 trillion (≈ 0.7 year of US national income)

Bottom 50% wealth

In 1982: $0.4 trillion ($5,000 per person)

In 2018 $0.5 trillion ($5,000 per person)

The rise and fall of tax progressivity

Average tax rate (% of pre-tax income)

Top 0.1%

Bottom 90%

Paper profits are moving to tax havens; real activity less so

Capital, profits & wages of US firms in tax havens
(% foreign capital, profits, and wages of US firms)

Profits booked in tax havens

Capital in tax havens

Wages paid to employees in tax havens
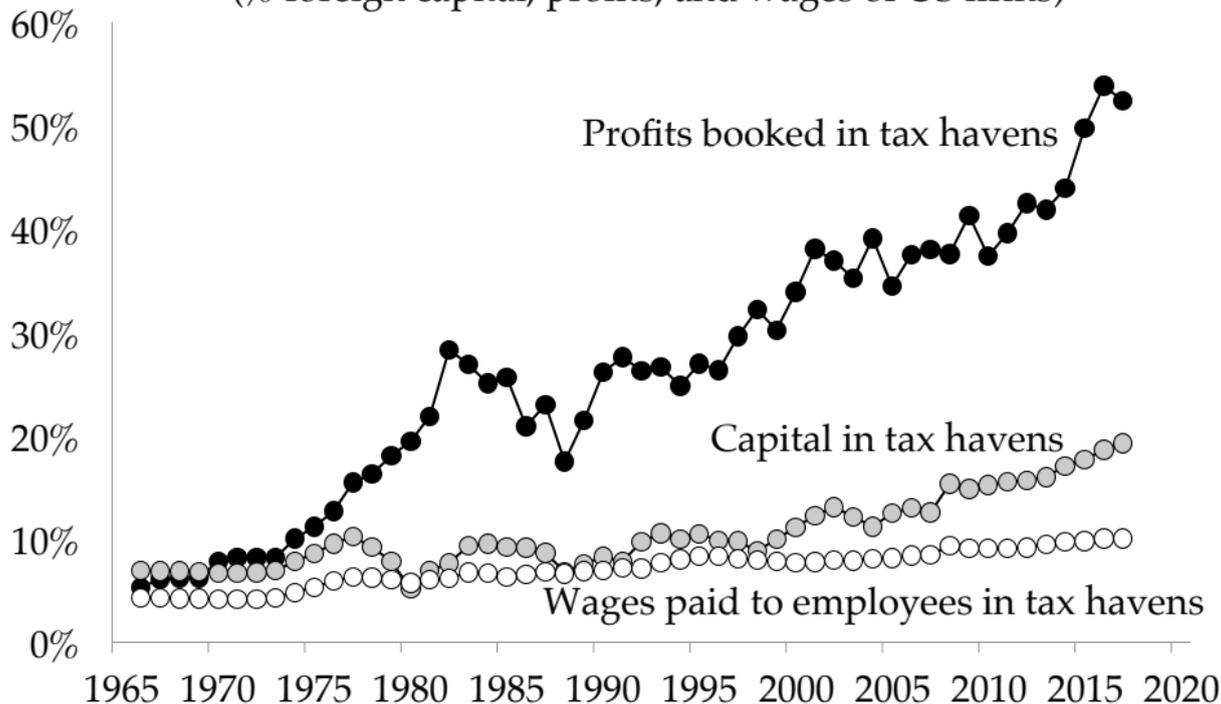
Towards the death of the progressive income tax?

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

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

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

  ▷ Individual income tax becomes mere consumption tax

  ▷ As tax competition rages, gap between corp. vs. top indiv. tax rate rises → rich more likely to incorporate

Any progressive plan must start with a strategy to end inter'l tax competition. **Good news is: this is doable.**

TaxJusticeNow.org

How we simulate tax reforms

Two key questions to analyze a tax reform:

1. Effect on each group's effective tax rate?
2. Effect on the dynamics of pre-tax income inequality?

Existing models (CBO, JCT, Treasury, Tax Policy Center) do 1. but for federal taxes only, and not 2.

TaxJusticeNow.org does 1. (for all taxes at all levels of gov.) and 2. through an interactive user-friendly website

TaxJusticeNow.org, live on October 15

Reinventing fiscal democracy

What the user can do:

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

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

What the website does:

  ▷ Show immediate impact on tax progressivity

  ▷ Show long-run effect on pre-tax income distribution (inequality)

  ▷ User-friendly: move levers or tick boxes, and graphs adjust in real time

$\rightarrow$ Make tax debate available to broad audience

Starting from who pays what today...

What's the effect of Warren's wealth tax?

↓ **Make Your Own Tax Plan** and see how adjusting various taxes can make the tax system more/less progressive.

What's the effect of higher wealth tax rates?

Make Your Own Tax Plan and see how adjusting various taxes can make the tax system more/less progressive.

Make Your Own Tax Plan

GRAPH VIEW: TOTAL TAXES GRAPH | TOTAL TAXES BREAKDOWN
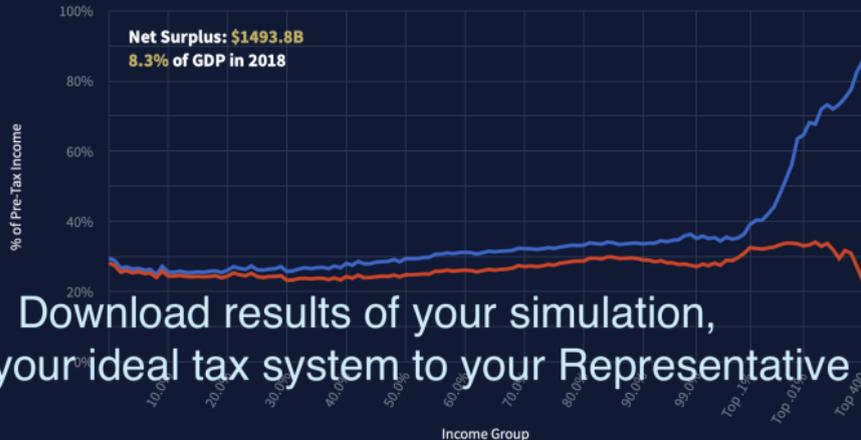
STEP 1
Adjust the sliders below to make your own tax plan. Or, you can start with a preset tax plan from the dropdown below.

Select a Tax Plan
Elizabeth Warren's Tax Plan

STEP 2
Select the tax you want to change from the navigation bar.

STEP 3
Download the results by clicking the button below, or reset the sliders to start over.

Download results   Reset all

Net Surplus: $554.5B
3.1% of GDP in 2018

Create your customized wealth tax

Wealth Tax | Individual Income Tax | Corporate Tax | Estate Tax | Flat Tax

Wealth Tax Brackets

$10m $50m $1bn $1bn+   Evasion Rate
6%
$1m $10m $50m $1bn

What's the effect of higher top marginal income tax rates?

↓ **Make Your Own Tax Plan** and see how adjusting various taxes can make the tax system more/less progressive.

What's the effect of minimum taxes for multinational companies?

Starting from the history of tax progressivity in the US...

Average tax rate (% of pre-tax income)

Top 0.1%

Bottom 90%
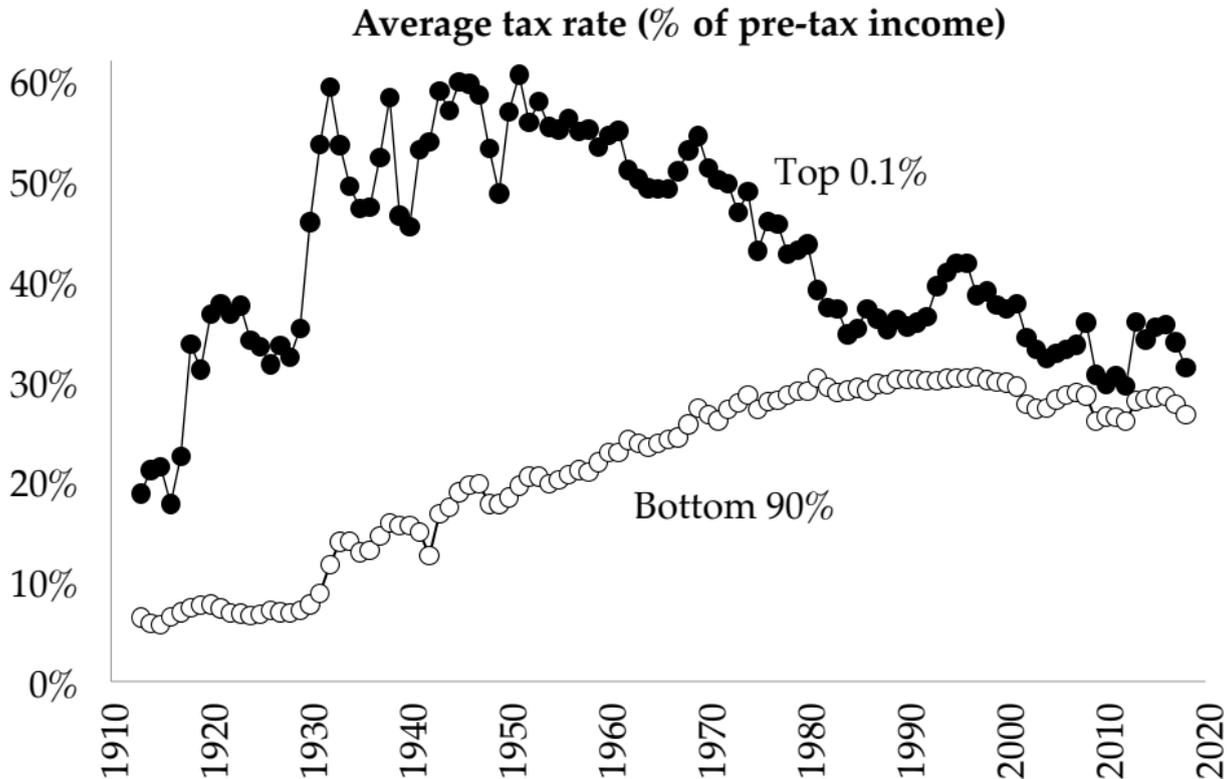
What if we increased top tax rates to maximize tax collection from the wealthy?

Average tax rates (% pre-tax income)

Top 0.1% tax rate, observed

Top 0.1% tax rate revenue-maximizing reform

Bottom 90% tax rate
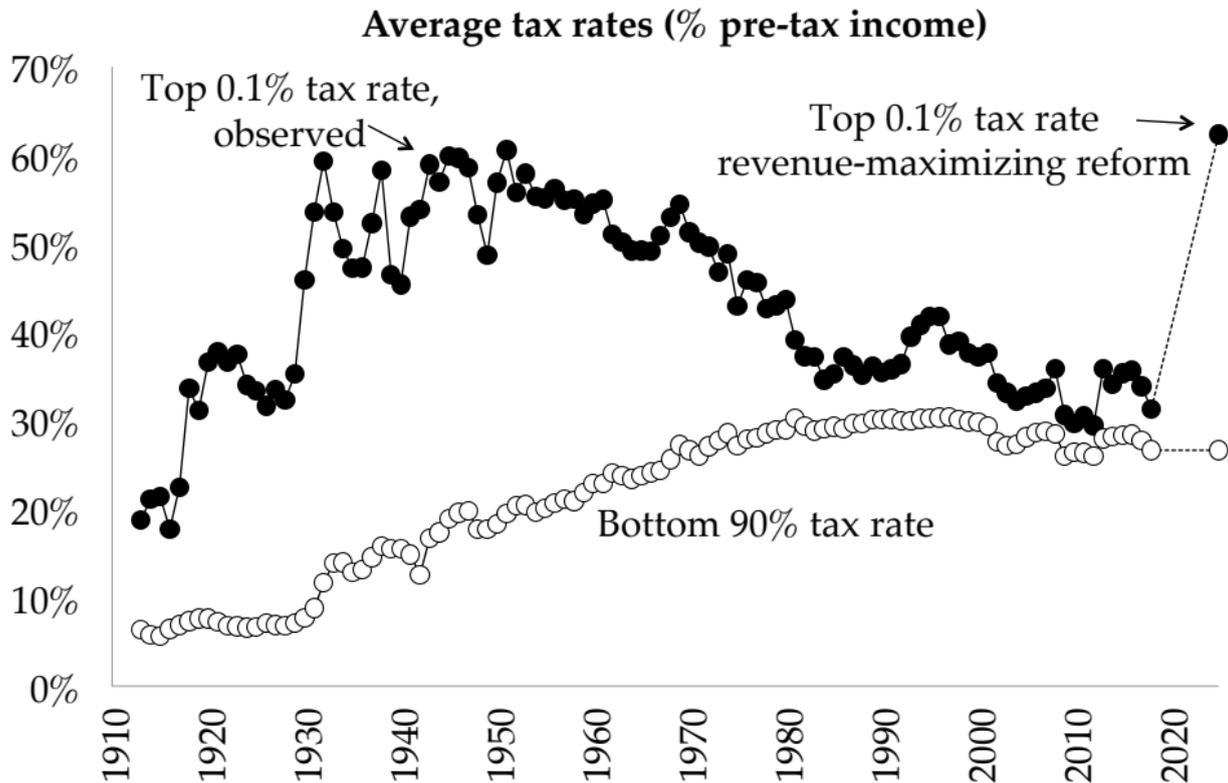
1946–1980: growth equitably shared (triumph of representative agent model)

Annual pre-tax income growth, 1946-1980

Average income growth: 2.0%

Income percentile
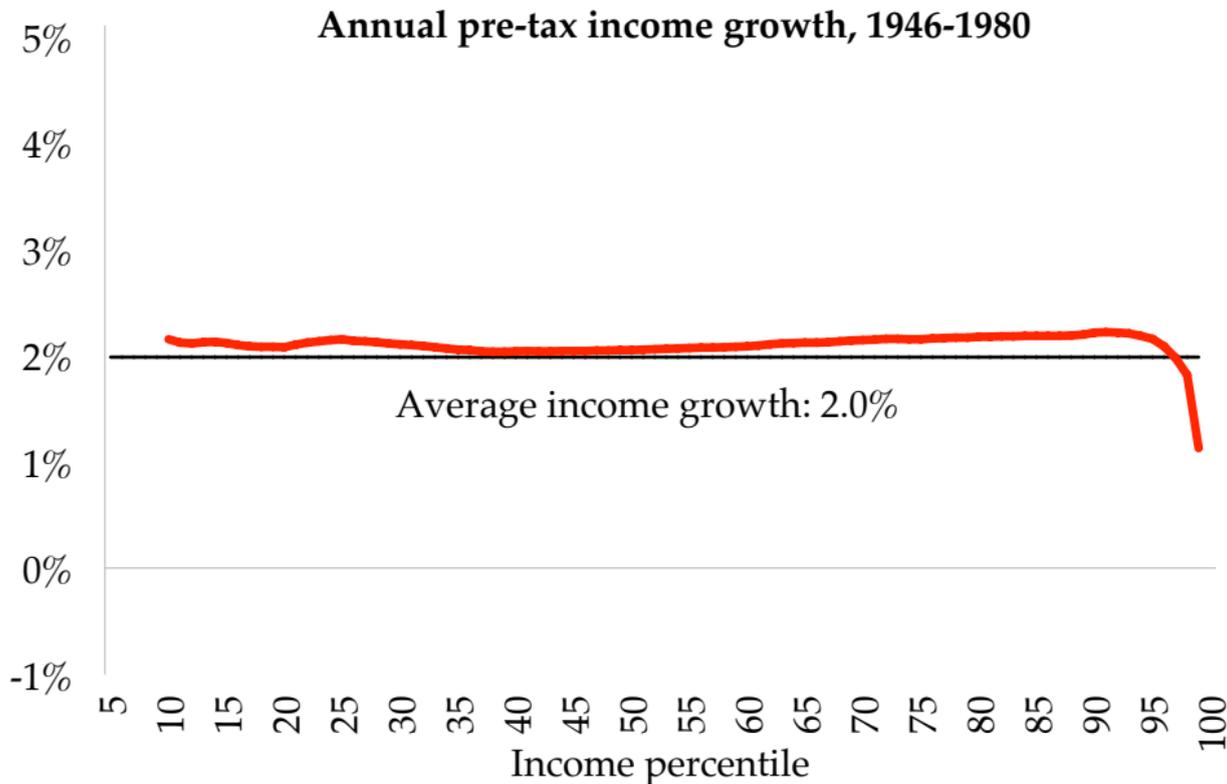
After 1980: people's growth (average of each person's growth) << macro growth

Annual pre-tax income growth, 1980-2018

Top 0.001%

P99.99 ⟶

P99.9 ⟶

P99 ⟶

Macro growth: 1.4%

People's growth: 0.65%

Income percentile
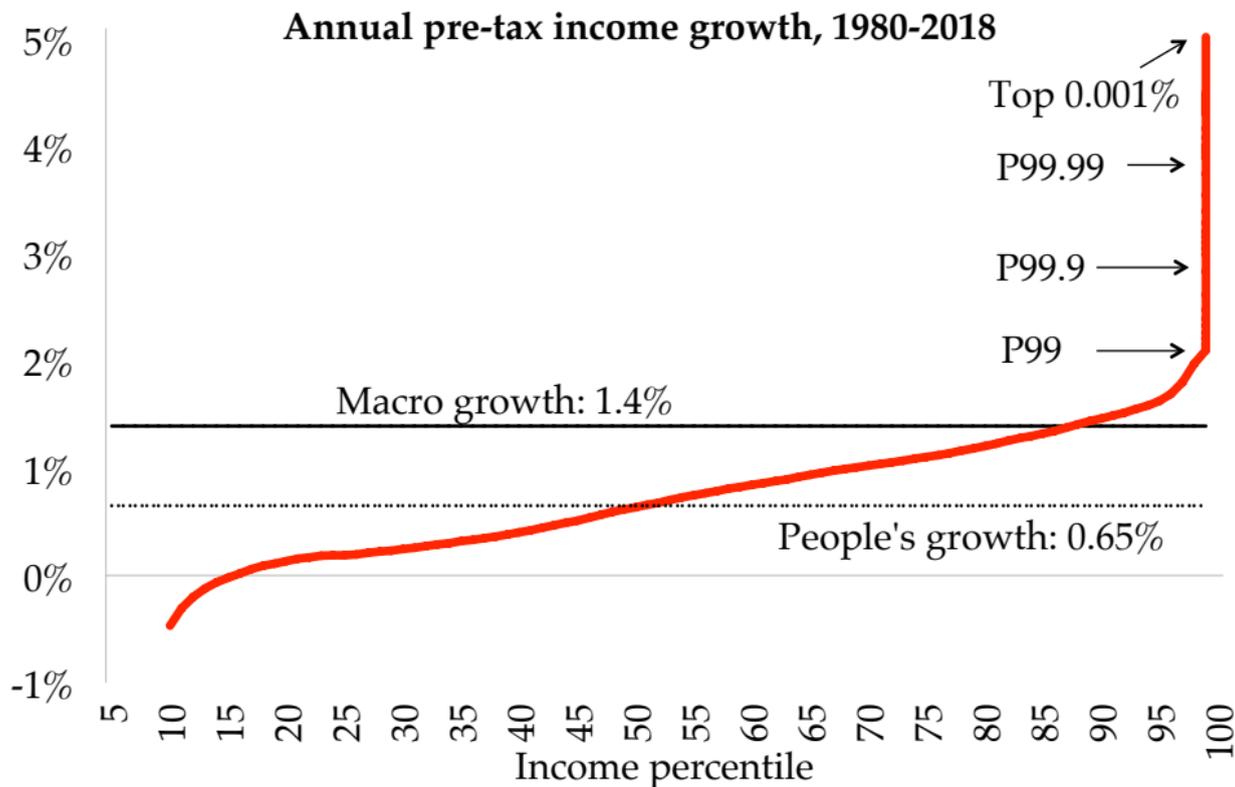
The 2 engines of injustice: falling taxes at the top, rising health poll tax for the rest

Average tax rate (% of pre-tax income)

Top 0.1%

Bottom 90%, incl. health

Bottom 90%
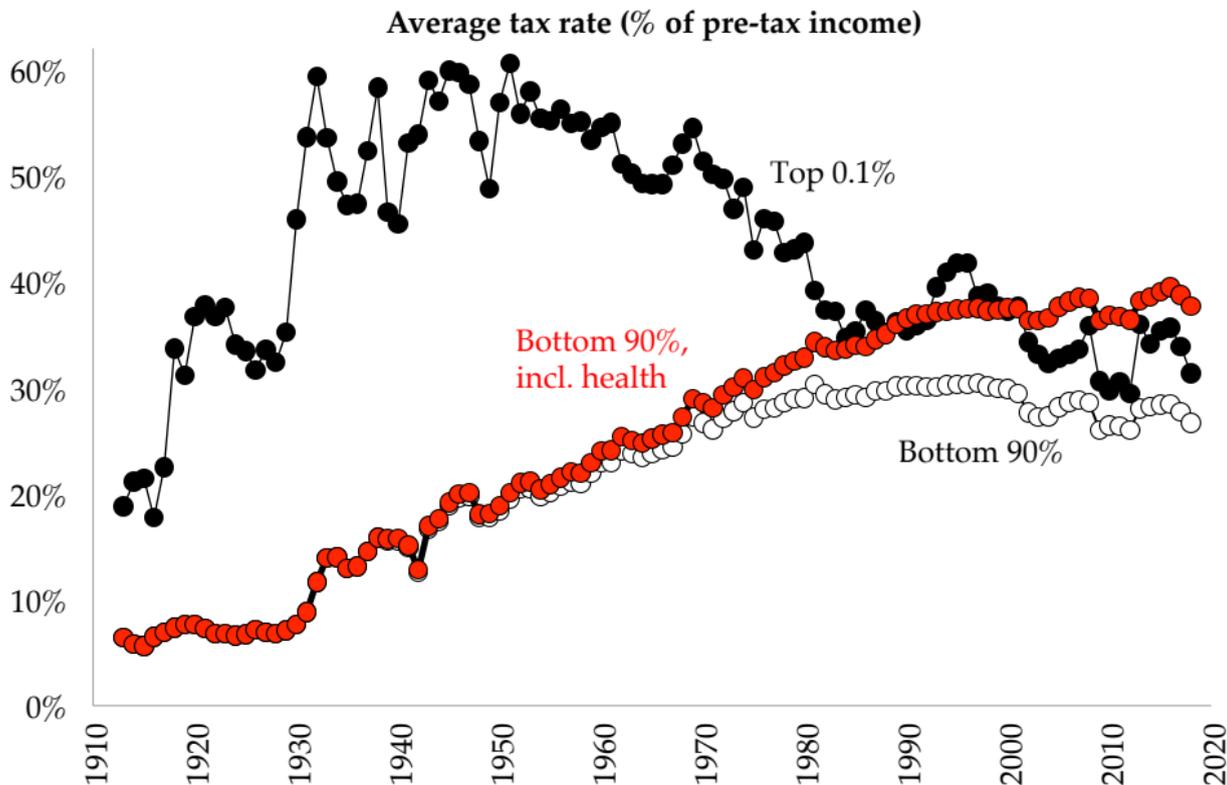
The Warren wealth tax would have a big impact on tax progressivity at the top

Tax rates by income group (% of pre-tax income)
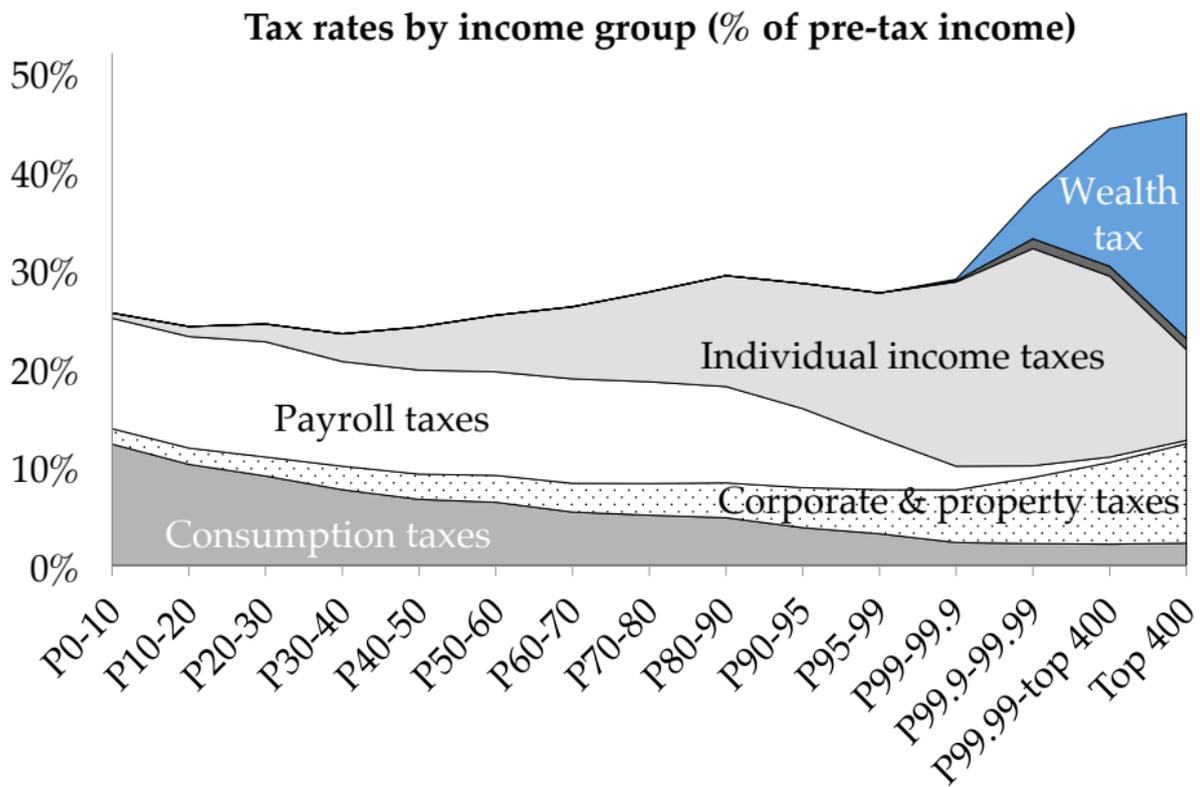
How we simulate the effect of tax changes on pre-tax inequality (for wonks)

Key features of the model:

▷ Model works at percentile group level $p =$ P0-10, ...

▷ Actual outcomes for group p in year t: pre-tax income z_{pt} and average tax rate τ_{pt}

▷ Counterfactual outcomes: $\hat{z}_{pt}, \hat{\tau}_{pt}$ with an alternative tax system in place since year t_0

▷ z_{pt} respond to taxes through behavioral elasticity e_p that depends on overall marginal tax rate mtr_{pt}:
$$z_{pt} = z_{pt}^0 \cdot (1 - mtr_{pt})^{e_p}$$

What if the US had kept a 70% top rate since the 1970s?

Top marginal income tax rate
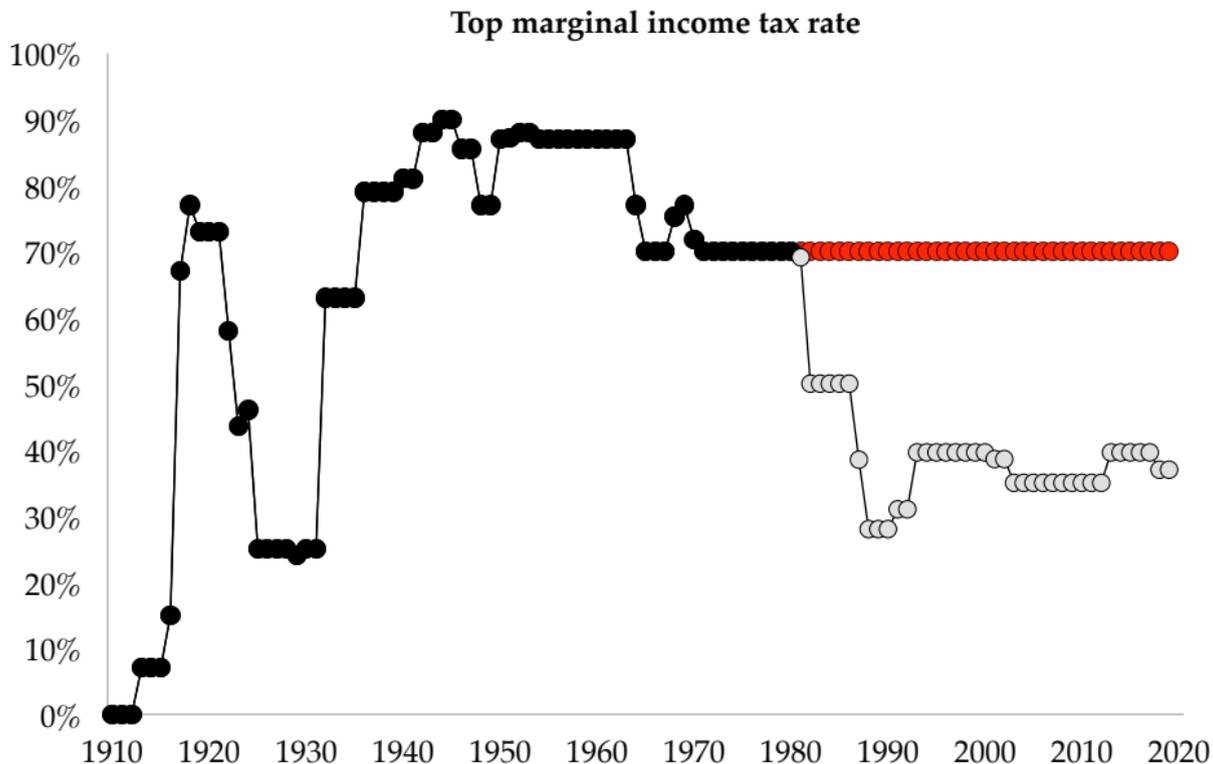
Two types of real behavioral responses to taxes (for wonks)

Key distinction: output vs. rent-sharing responses

  ▷ Output responses affect **level of output** through labor supply and capital accumulation: elasticity e_{pt}^O

  ▷ Rent-sharing responses affect pre-tax **distribution of output**: workers bargain for higher wages, private equity owner squeeze workers or customers: e_{pt}^R

e_p^O, e_{pt}^R: not immutable parameters: e_p^O could be 0 (as, eg, during World War 2).

Benchmark: $e_p^O = 0.25$ and $e_p^R = 0.75$ at top; can be modified by user.

What boosts saving:
regulations, not tax incentives

US macroeconomic capital tax rate vs saving rates

Capital tax rate

Private saving rate

National saving rate
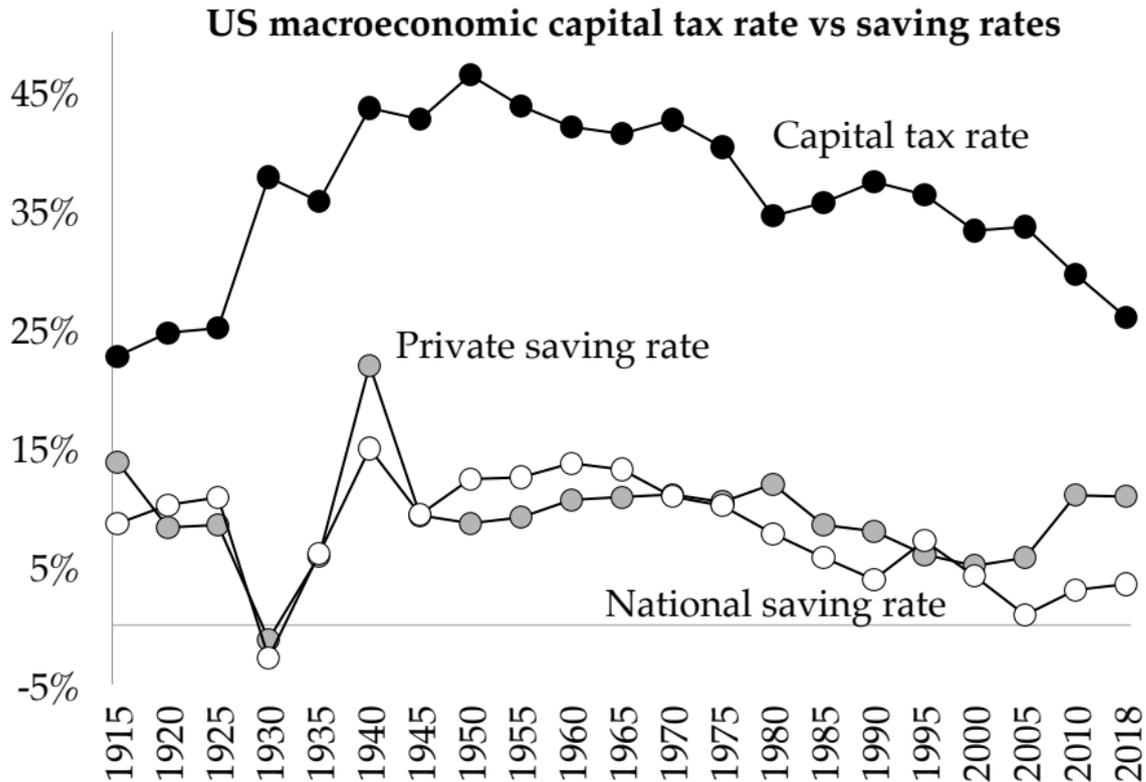
Summary of our reform: Taxing the rich

	Type of tax	Revenue (% of national income)
Wealth tax	2% rate above $50 million	1.2%
	3.5% rate above $1 billion	
Income tax	60% top marginal income tax rate	1.7%
	Full taxation of dividends & K gains	
	Integration with corporate tax	
Corporate tax	30% effective US corporate tax rate	1.2%
	25% country-by-country minimum tax	
Total		**4.1%**

Summary of our reform: A fairer social state

	Type of tax / spending	Revenue (% of national income)
Abolish health care poll tax	$8,000 for currently-covered workers	–6.0%
	$8,000 for the currently uninsured	
Education for all	Public child care and early education	–1.0%
	Free tuition for public universities	–0.5%
Abolish sales taxes	Eliminate sales taxes and Trump tariffs	–2.3%
National income tax	Flat 6% rate	5.6%
Total		**–4.1%**

Comparison with PSZ

Top 0.1% effective tax rate
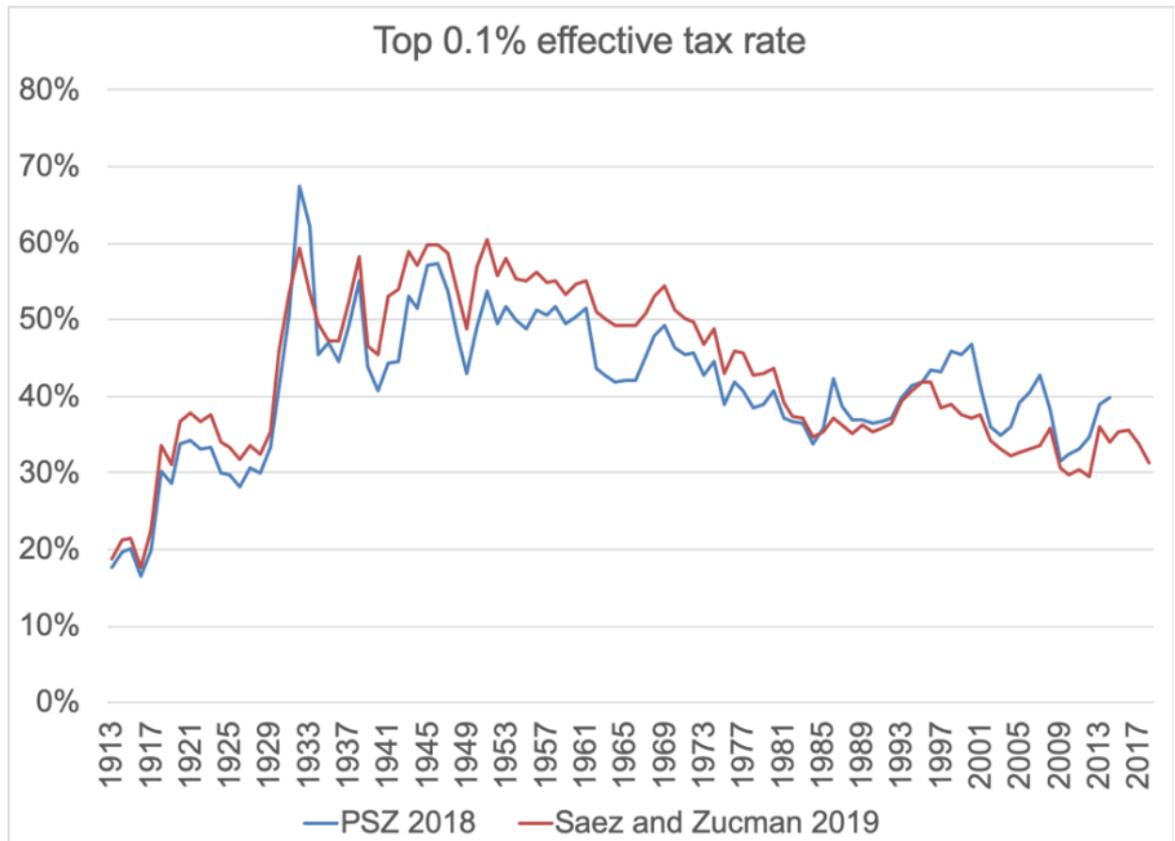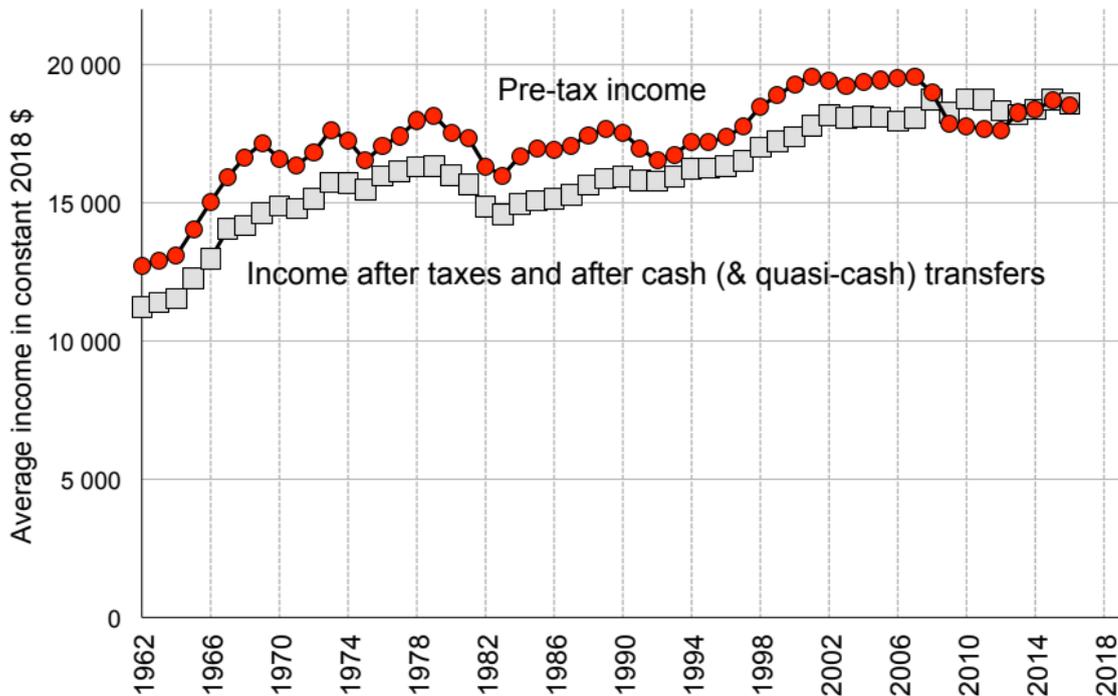
The working-class does not benefit on net from cash redistribution

Real average income of bottom 50%: pre-tax vs. post-tax

Pre-tax income

Income after taxes and after cash (& quasi-cash) transfers

Average income in constant 2018 $

The tax system of France appears no more progressive than that of the US

Figure 5d. Taxes paid by factor income percentile, France 2018

Indirect taxes

Flat income taxes

Progressive income taxes

Capital taxes

Total social contributions
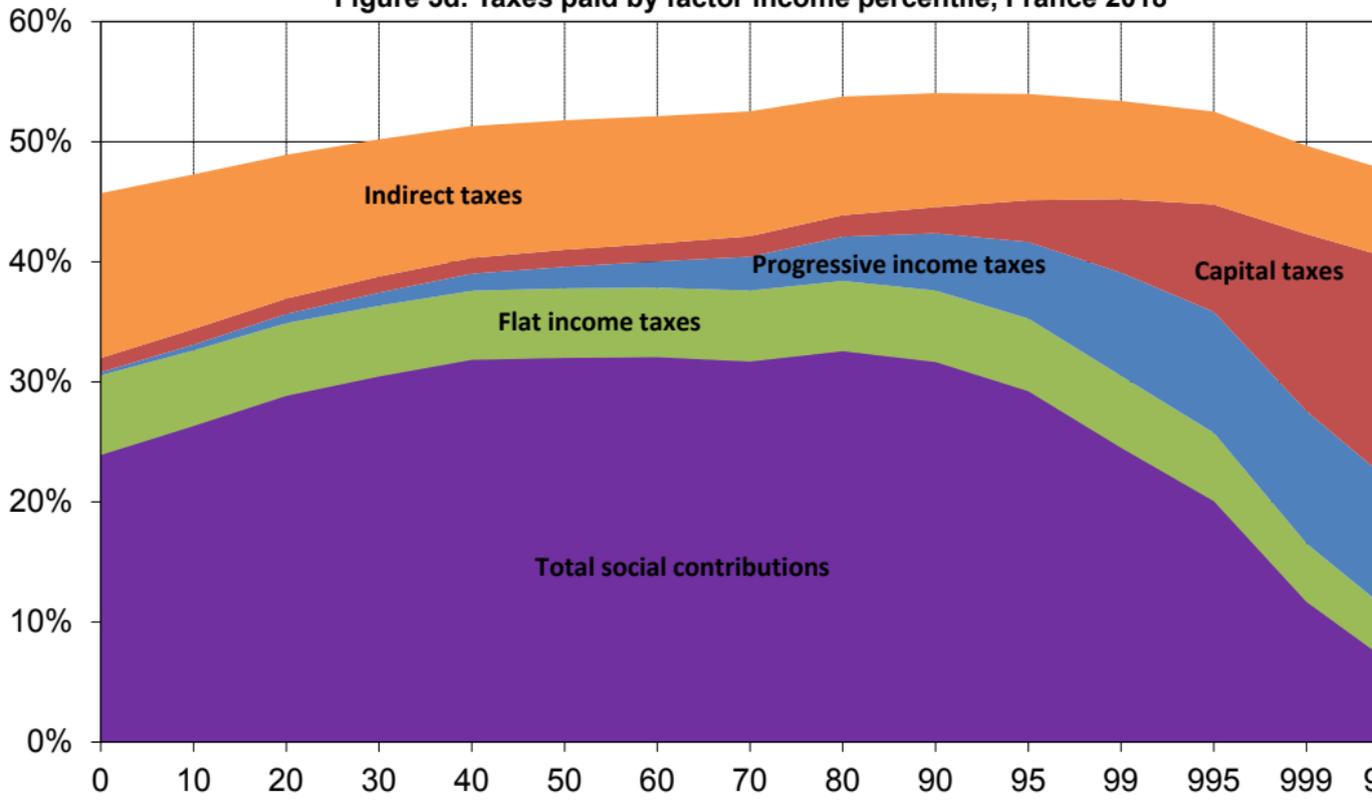
Distribution of factor national income among working population, i.e. adults aged 25-60 y.o working at least part-time.