

The Triumph of Injustice

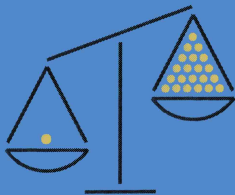
[TaxJusticeNow.org](https://taxjusticenow.org)

Berkeley Law, March 2020

Emmanuel Saez
Gabriel Zucman

THE TRIUMPH OF INJUSTICE

How the Rich Dodge Taxes and How to Make Them Pay



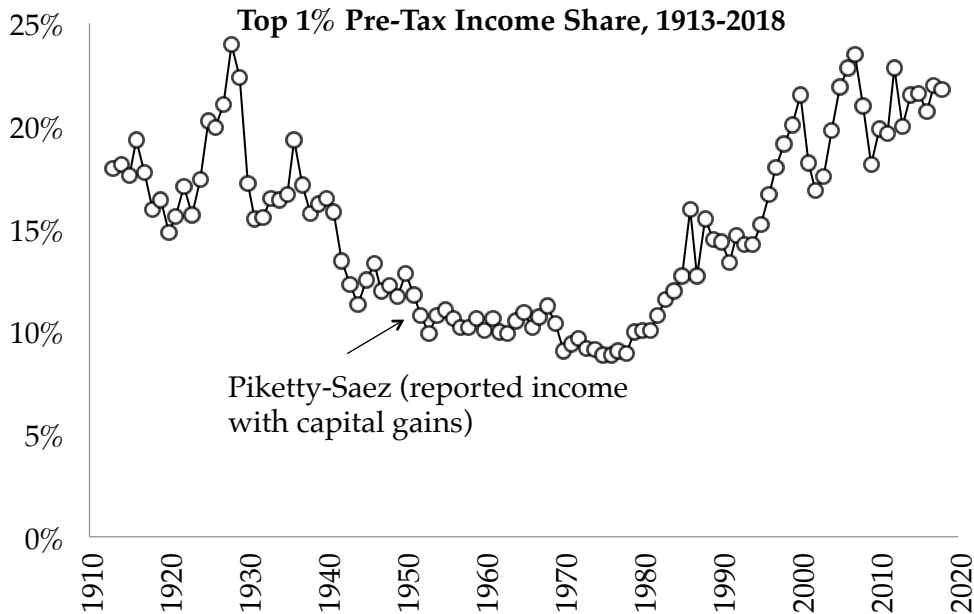
EMMANUEL SAEZ AND GABRIEL ZUCMAN

Three main novelties:

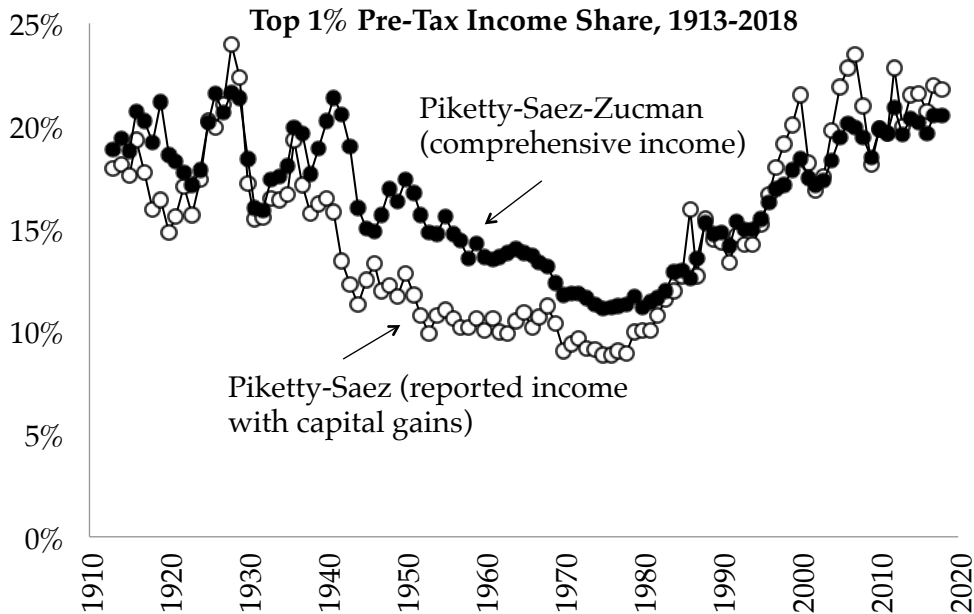
- ▷ How much each social group pays in taxes, from 1913 to today
- ▷ Elements for a new 21st century tax system, reconciling globalization and progressive taxation
- ▷ Tool for a democratic fiscal debate

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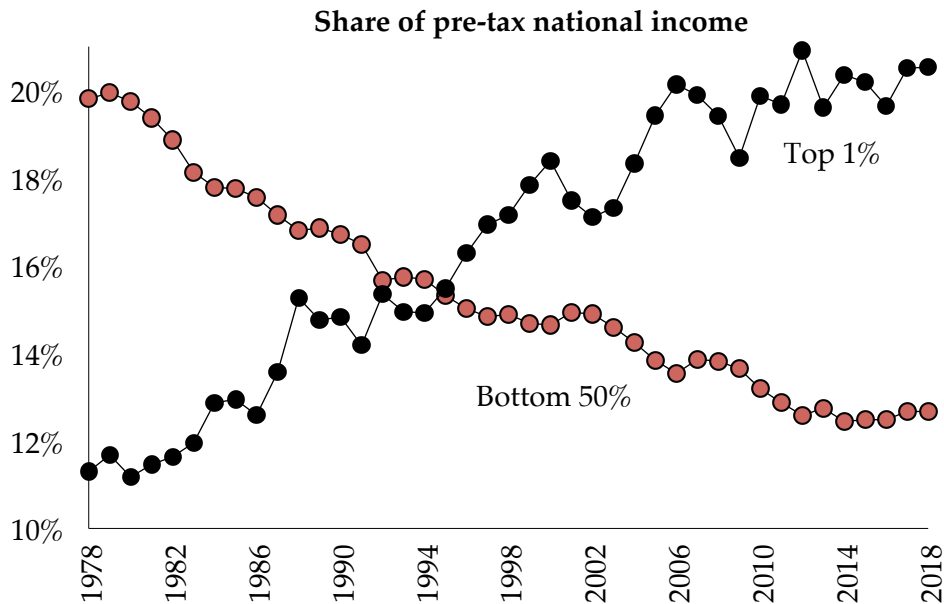
The top 1% U-shaped income share



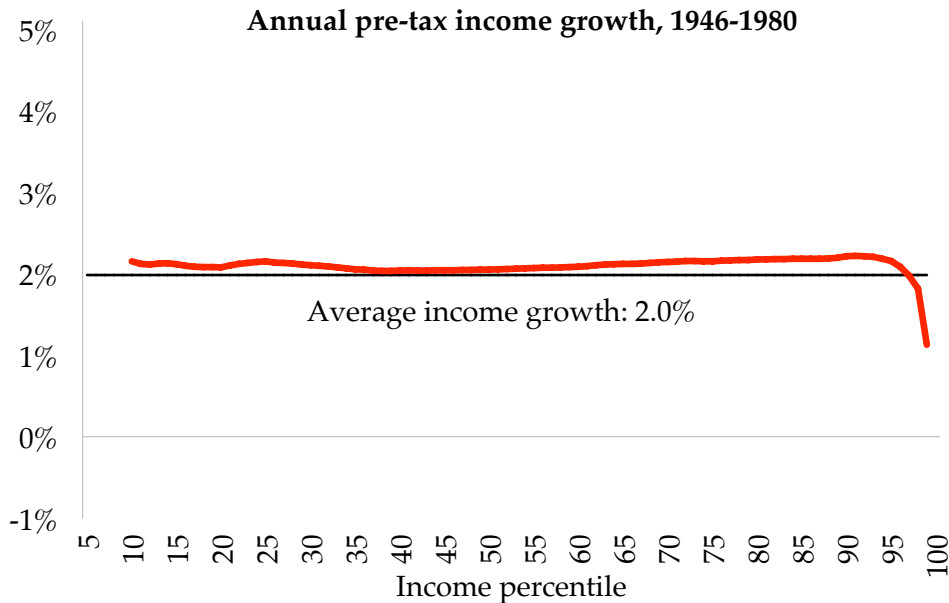
The top 1% U-shaped income share



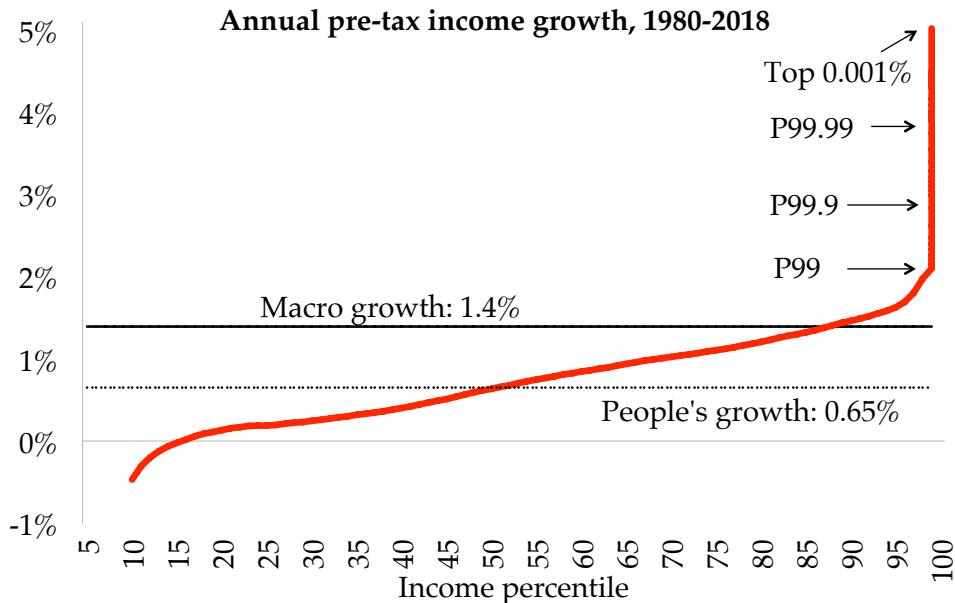
Top 1% gains as large as losses of the bottom 50%



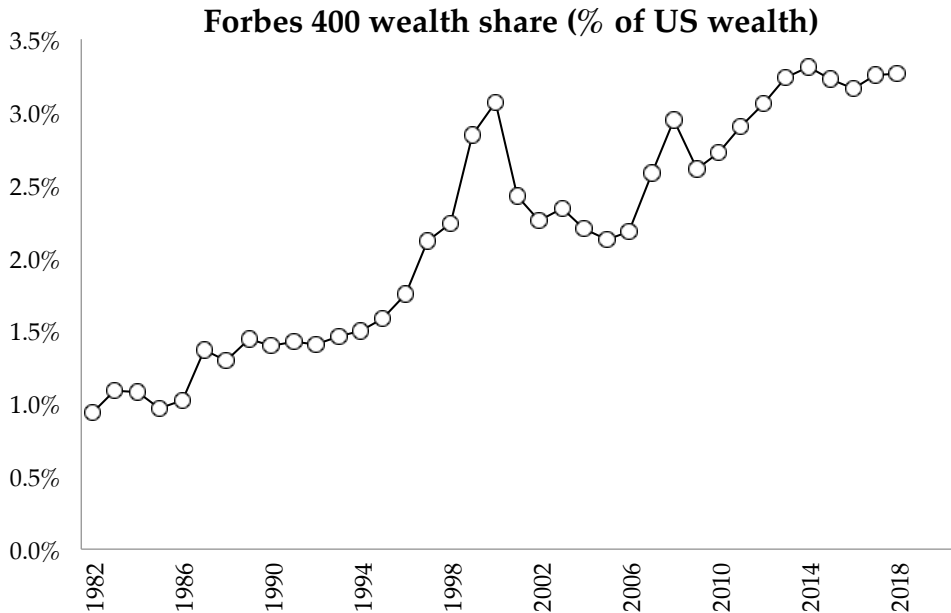
1946–1980: growth equitably shared (triumph of representative agent model)



After 1980: people's growth has little to do with macro growth



The growing concentration of wealth at the very top



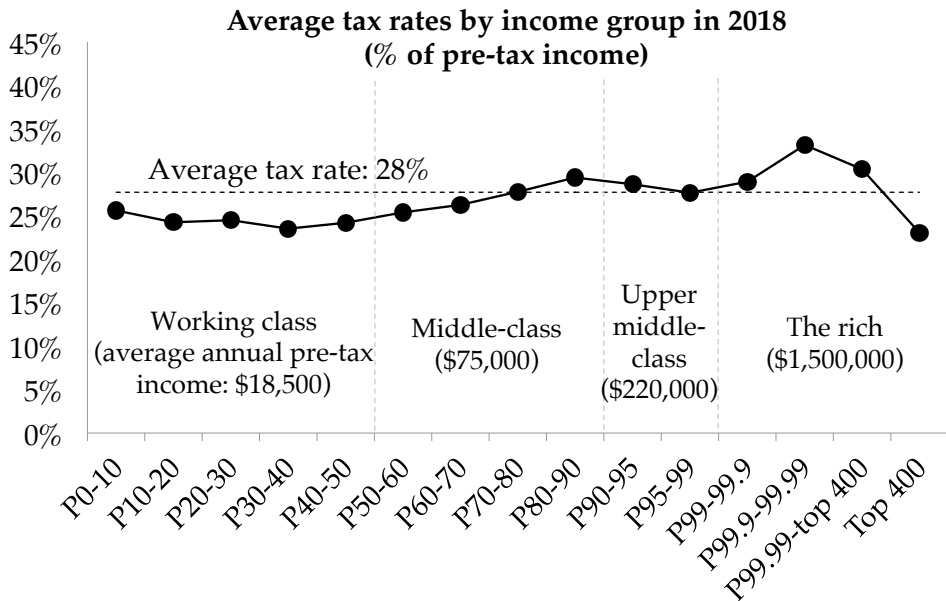
The Regressivity of the Current US Tax System

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



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

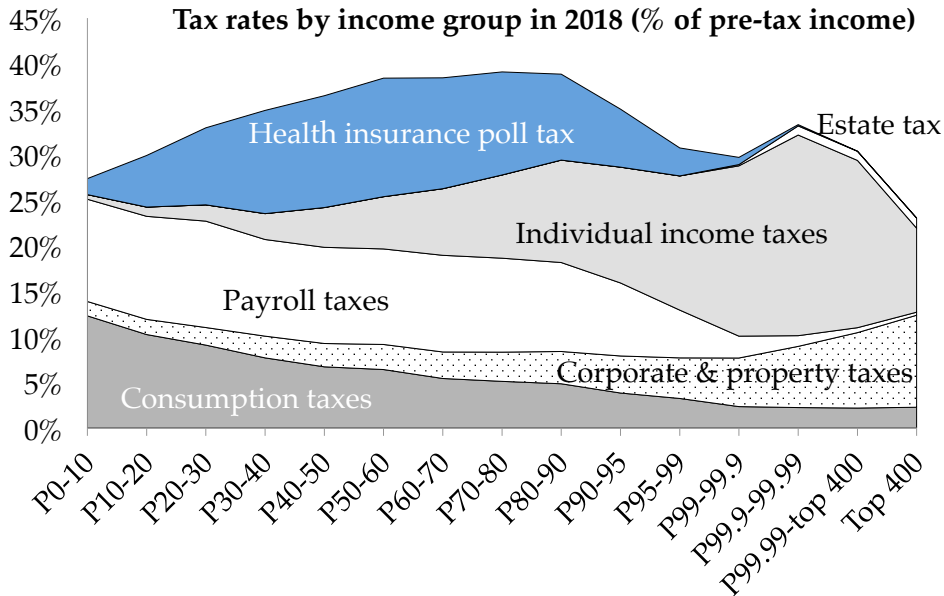
Everybody needs health care and it is expensive

- ▷ 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

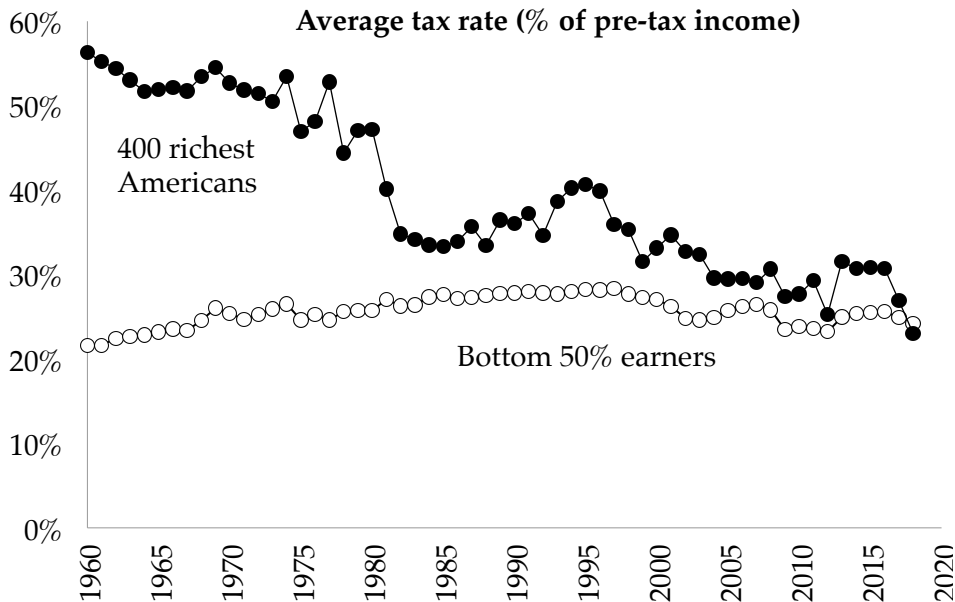
- ▷ Highly regressive and not sustainable

The US tax system: flat... or massively regressive?

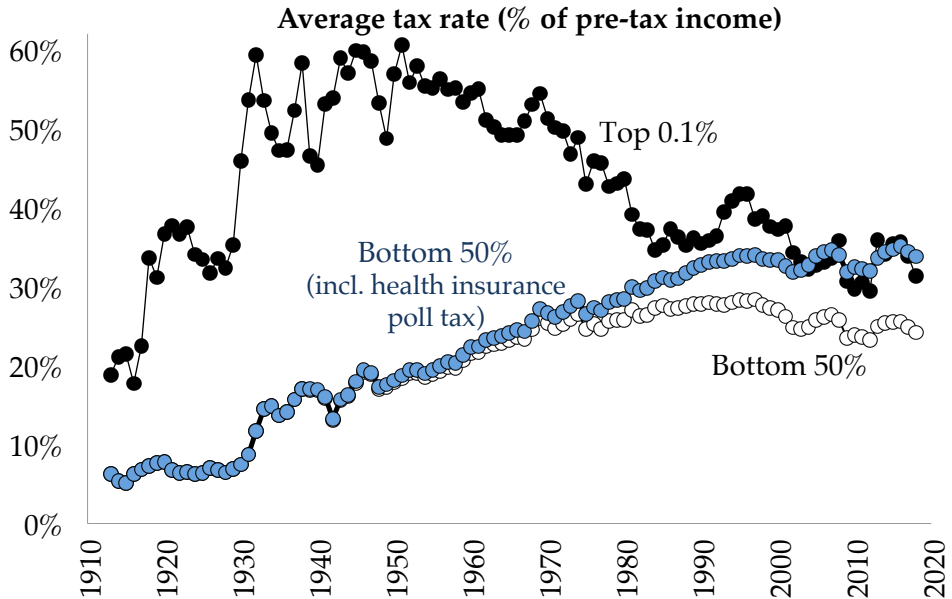


Long-Run Changes in Tax Progressivity in America

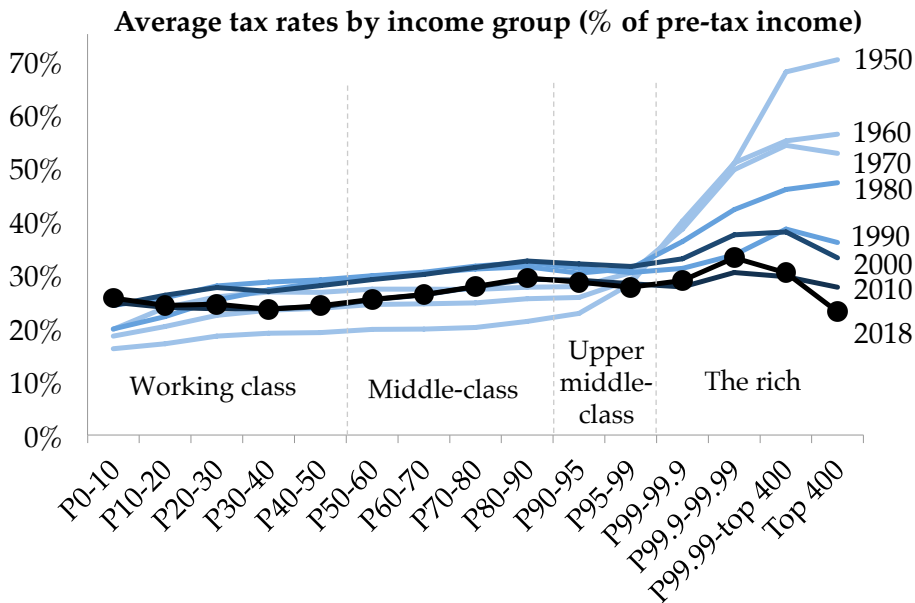
For the first time in 2018, billionaires paid lower tax rates than the working class



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



The shrinking progressivity of the US tax system



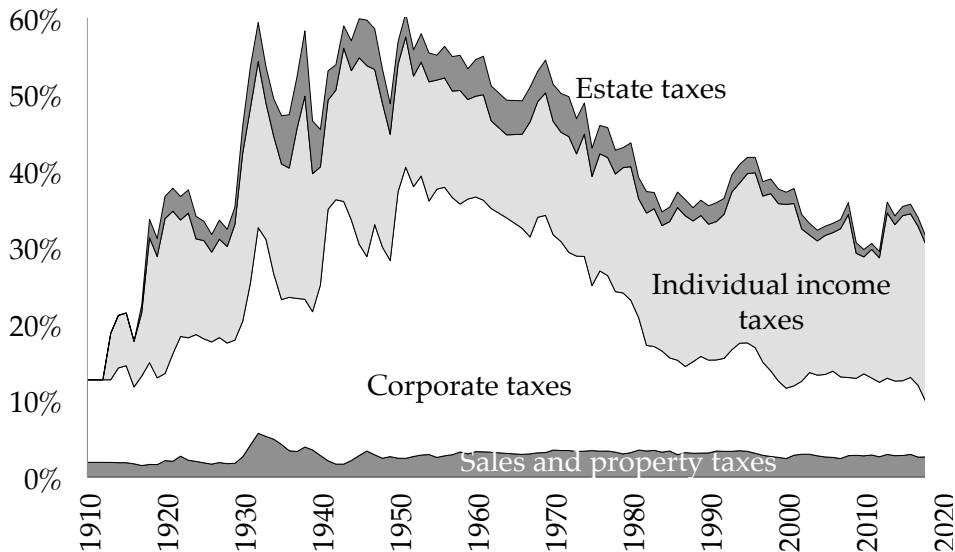
Why has tax progressivity collapsed?

Three main drivers of declining progressivity:

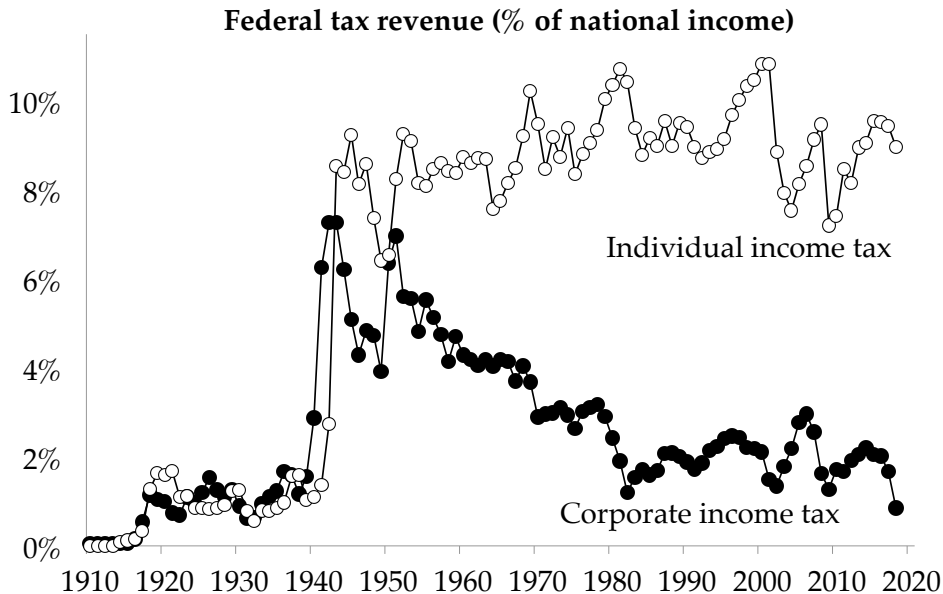
1. Collapse in capital taxation, itself reflecting changes in politics and ideology
2. Choice to tolerate certain forms of evasion. **Let avoidance fester → slash rates → repeat**
 - ▷ 1980s: individual income tax → Reagan 1986
 - ▷ 2000s-2010s: corporate tax → Trump 2017
3. Globalization in its current form: tax havens; tax competition.
 - ▷ But nothing inherent in globalization prevents K taxation: **other choices are possible**

The key role of the corporate tax in taxing the rich

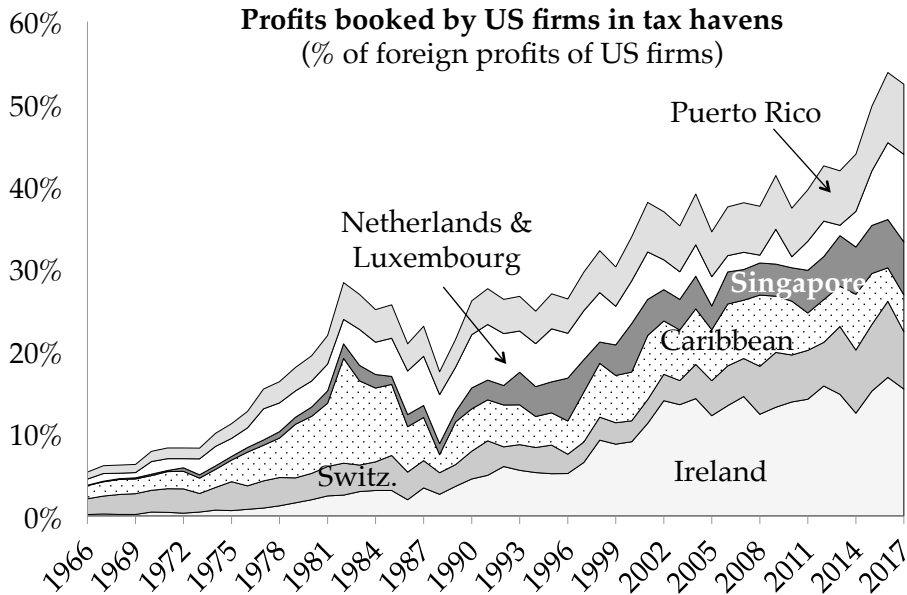
Average tax rate of the top 0.1% (% of pre-tax income)



The slow agony of the corporate tax

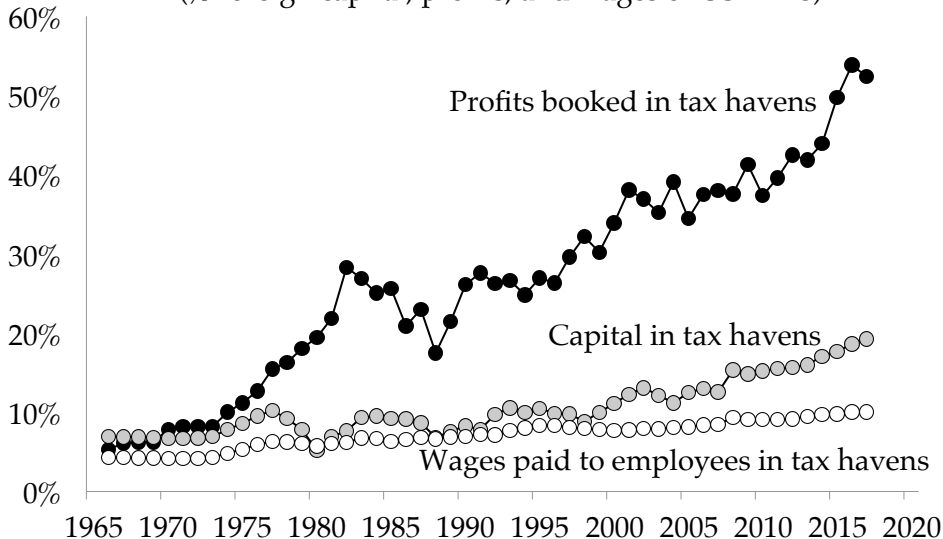


Letting tax evasion fester: The case of the corporate tax



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)



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**

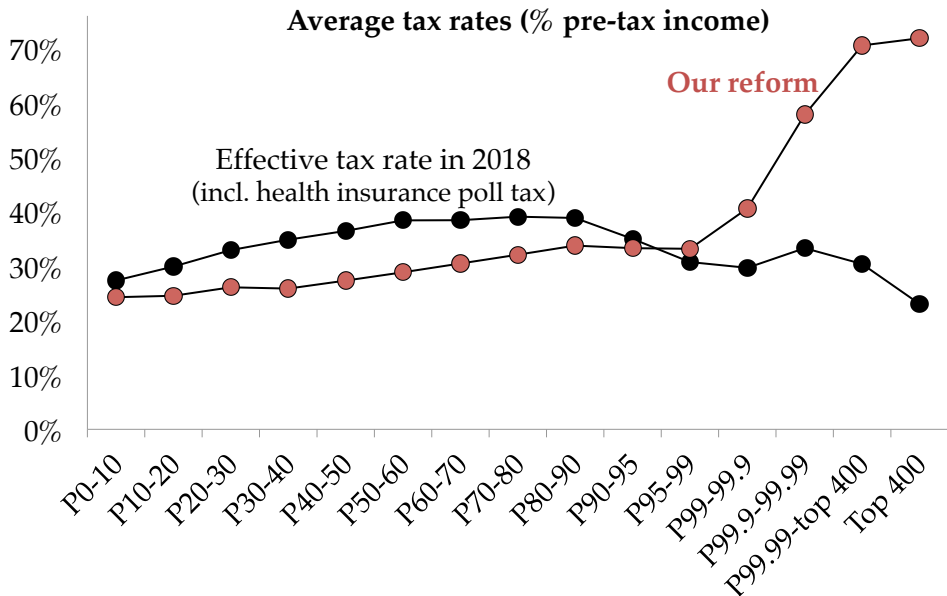
- ▷ Wealth tax on ultra-rich to reduce wealth concentration and protect democracy

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



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**

Rewrite the treaties of globalization

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

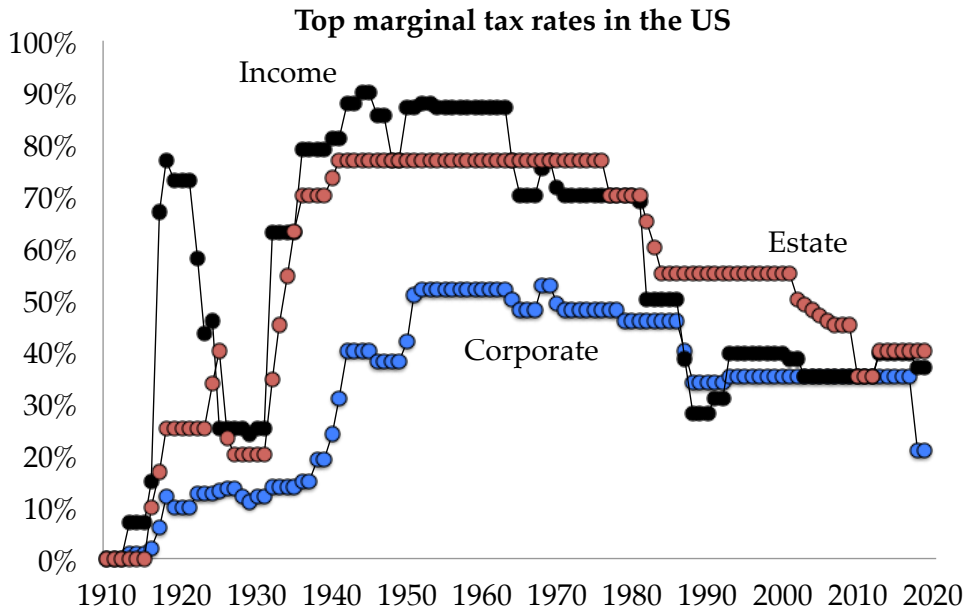
US pioneered steeply progressive taxation

- ▷ $\geq 70\%$ estate tax rate 1936–1980
- ▷ $\geq 90\%$ 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

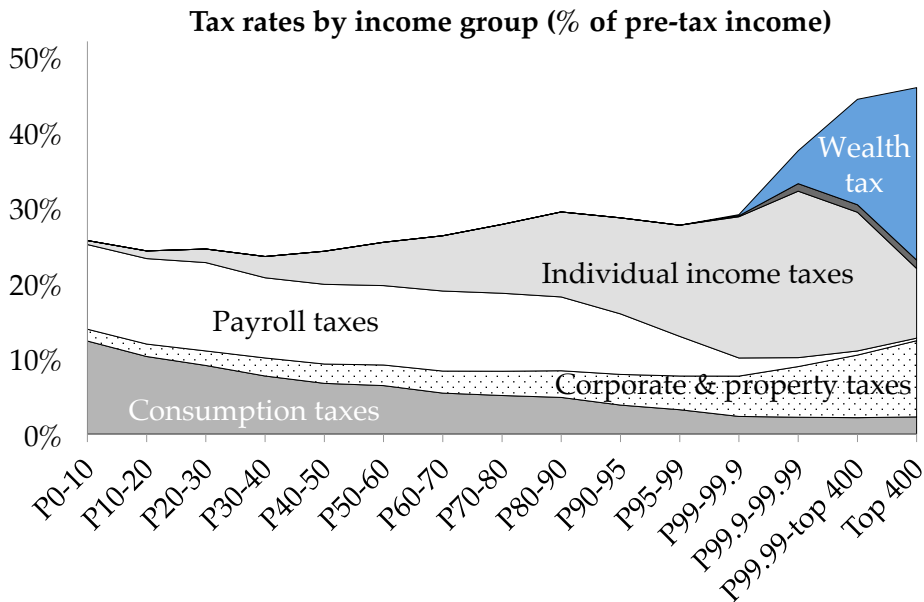


Reinventing wealth taxation for the 21st century

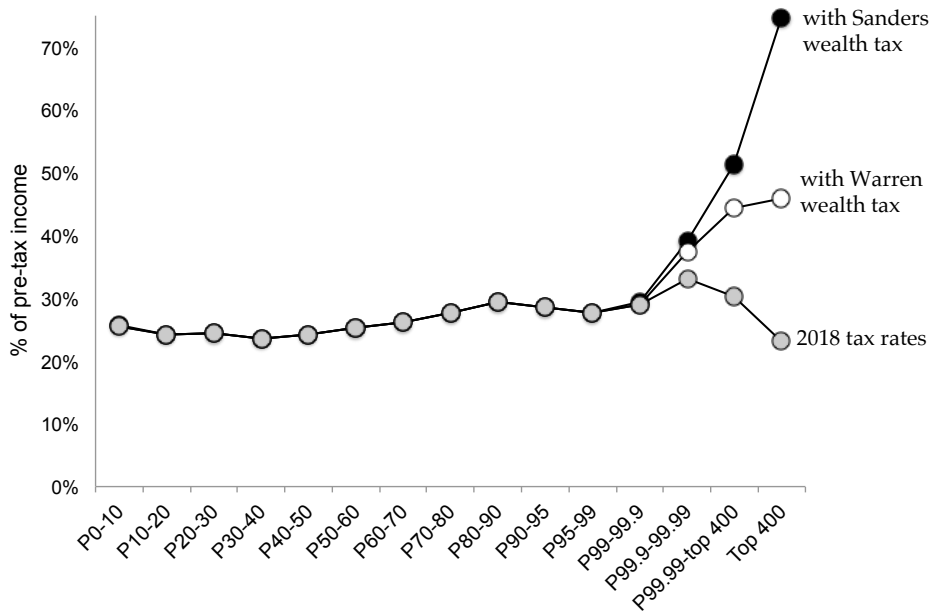
3 goals: 1) generate revenue to complete the US social state, 2) restore tax progressivity, 3) curb extreme wealth

- ▷ **Warren initial tax:** 2% above \$50m, 3% above \$1bn:
 - ▷ ~ **generate revenue sustainably ($\approx 1\%$ GDP)**
- ▷ **Sanders tax:** 1% above \$32m, 2% above \$50m, ..., 5% above \$1bn, 8% above \$10bn:
 - ▷ ~ **abolish billionaires gradually**

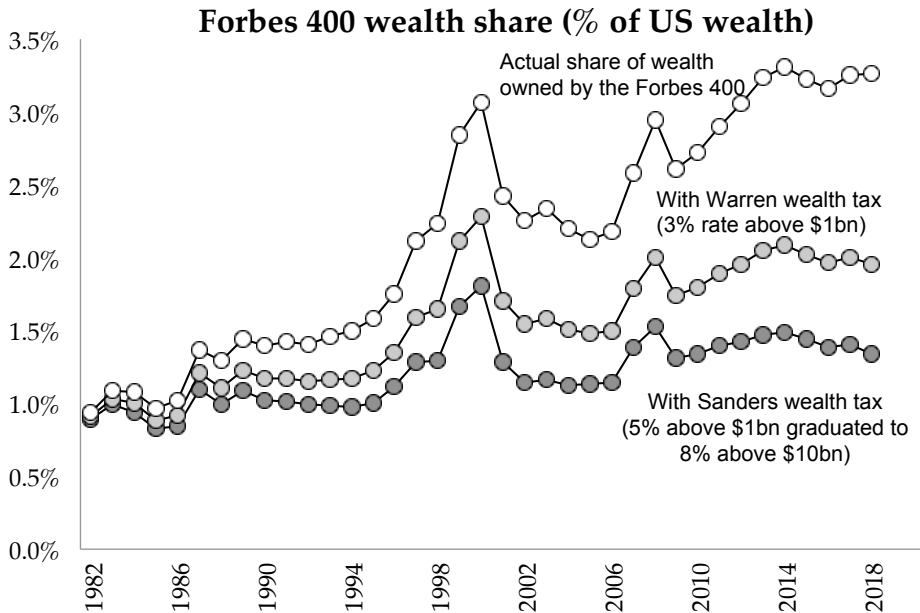
The Warren wealth tax would have a big impact on tax progressivity at the top



The Warren and Sanders wealth taxes and progressivity



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



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

Long-Term Wealth Taxation and Top Wealth Holders

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

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 (\simeq \$1m) creating hardship for some illiquid millionaires. At \$50m+, liquidity issues vanish

Funding health care for all: the national income tax

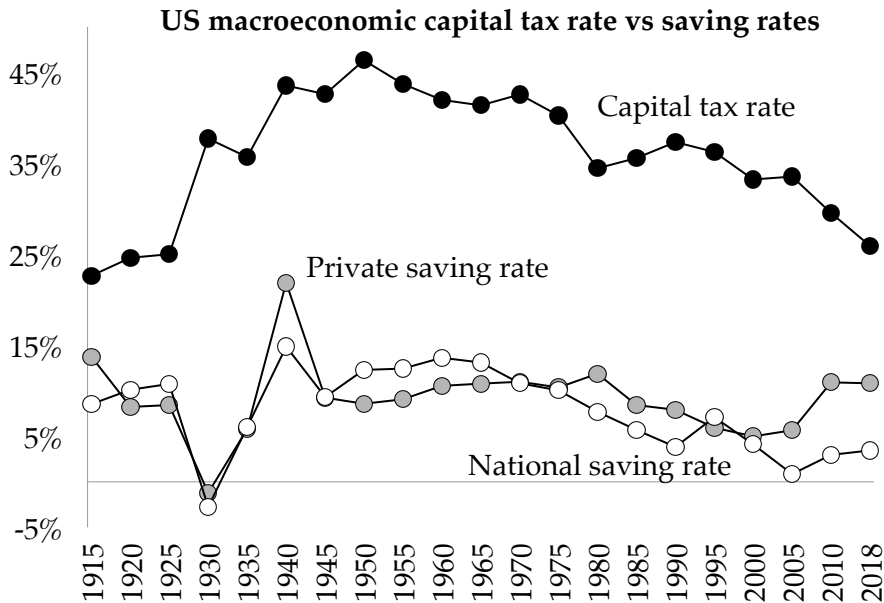
Other countries use VAT and payroll taxes to fund health.
But **these taxes are regressive & have narrow base**

- ▷ 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 → **big tax cut for bottom 90%**

What boosts saving: regulations, not tax incentives



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Taxes of the people, by the people, for the people

TaxJusticeNow.org

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TECHNICAL APPENDIX ABOUT

For the first time in over a century,
billionaires now pay lower tax rates than their secretaries.

TAX JUSTICE NOW

BEGIN ↓

Reinventing fiscal democracy

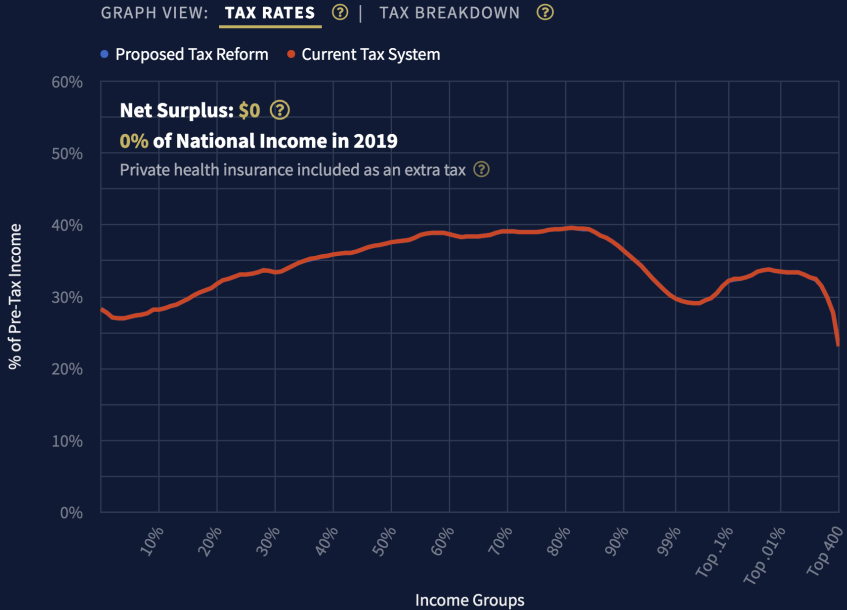
What the user can do:

- ▷ 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

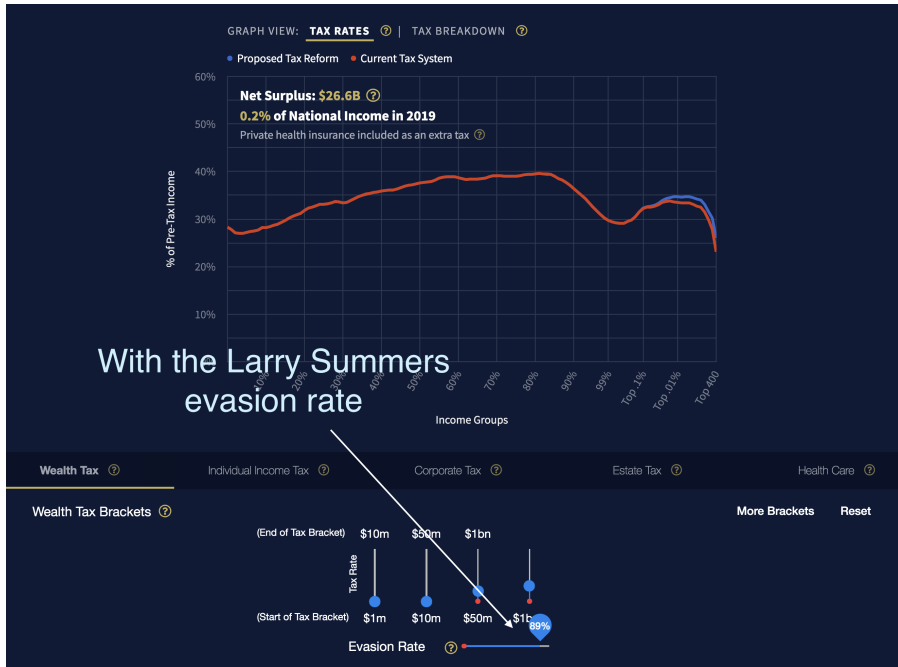
Starting from who pays what today...



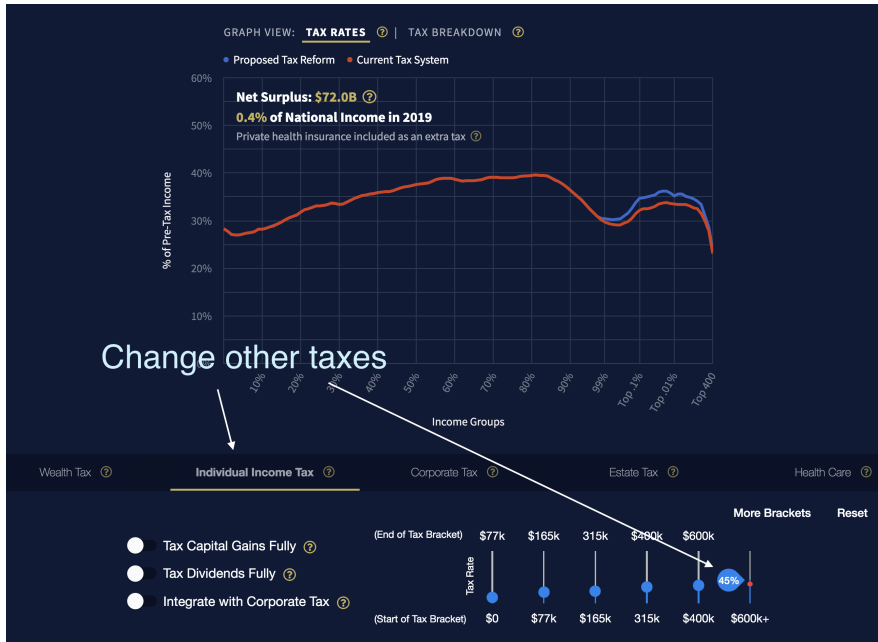
You can construct Warren's wealth tax...



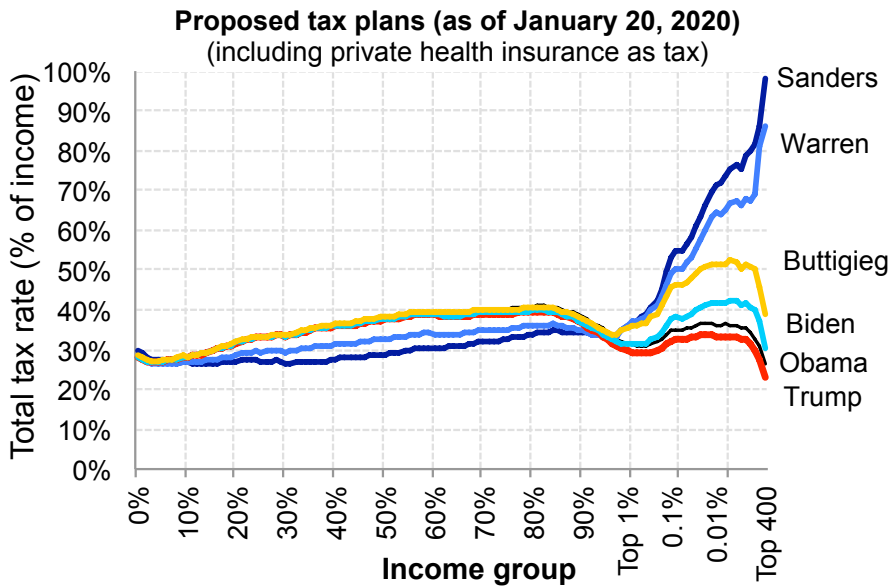
Select a plausible evasion tax rate...



Change other taxes...



Tax simulator models the candidates tax plans...and let's you modify them



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)