

# The Triumph of Injustice

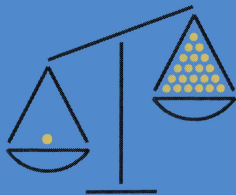
[TaxJusticeNow.org](http://TaxJusticeNow.org)

Harvard Stone Lecture 2019

Emmanuel Saez  
Gabriel Zucman

# THE TRIUMPH OF INJUSTICE

How the Rich Dodge  
Taxes and How to  
Make Them  
Pay



EMMANUEL SAEZ AND GABRIEL ZUGMAN

## Three main novelties:

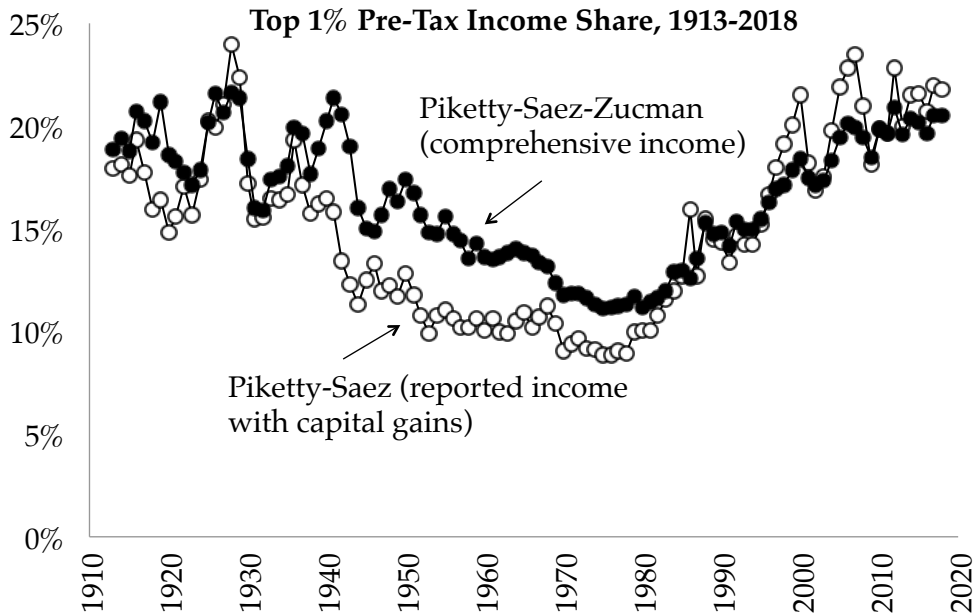
- ▷ How much each social group pays in taxes, from early 20th century to today
- ▷ Elements for a new 21st century tax system, reconciling globalization and progressive taxation
- ▷ Tool for a democratic fiscal debate

[TaxJusticeNow.org](http://TaxJusticeNow.org)

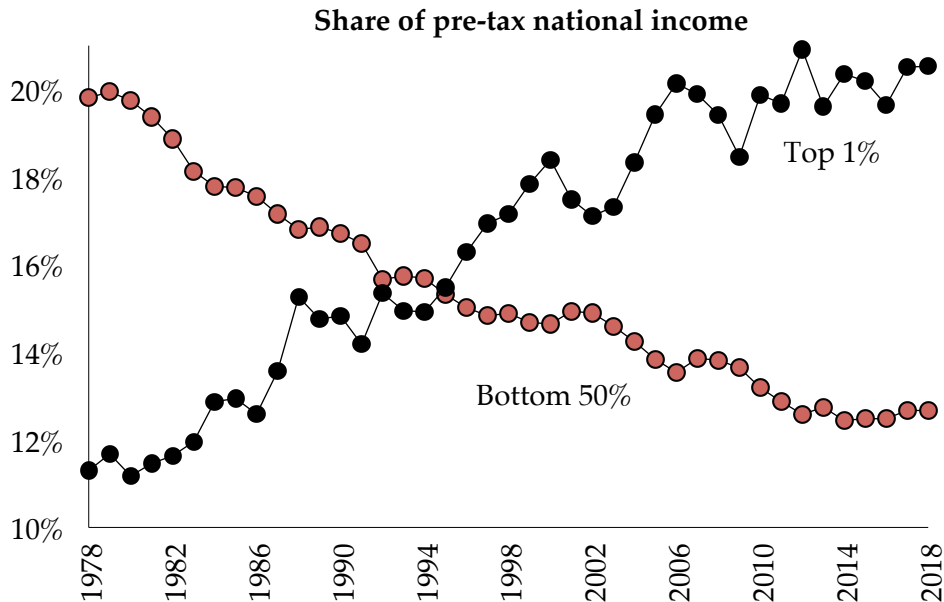
# The top 1% U-shaped income share



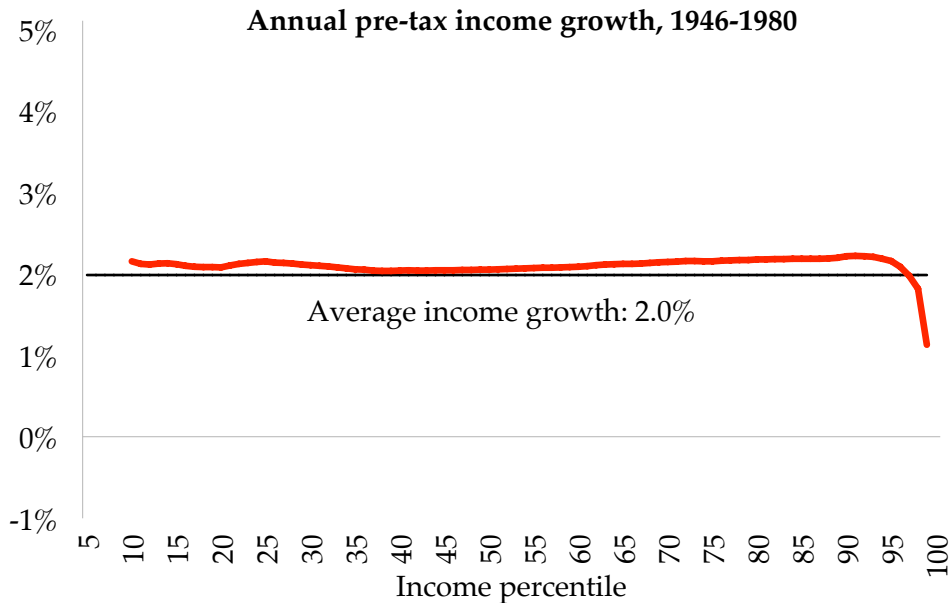
# The top 1% U-shaped income share



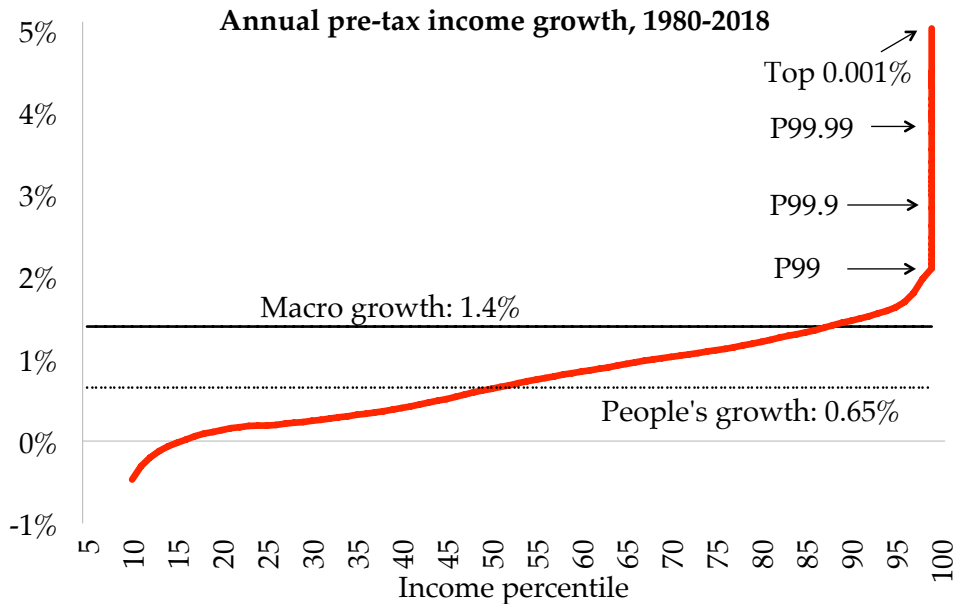
# Top 1% gains as large as losses of the bottom 50%



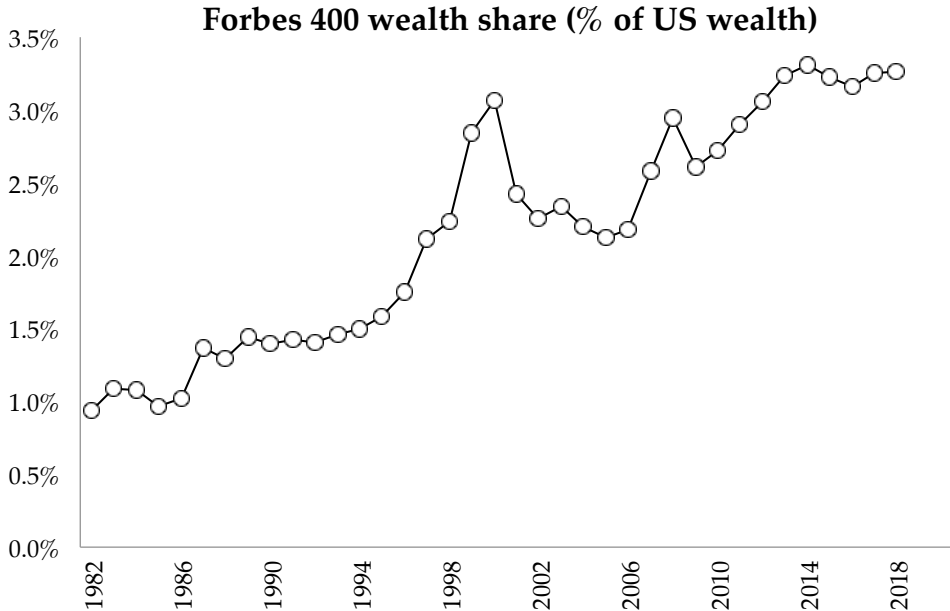
# 1946–1980: growth equitably shared (triumph of representative agent model)



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



# The growing concentration of wealth at the very top





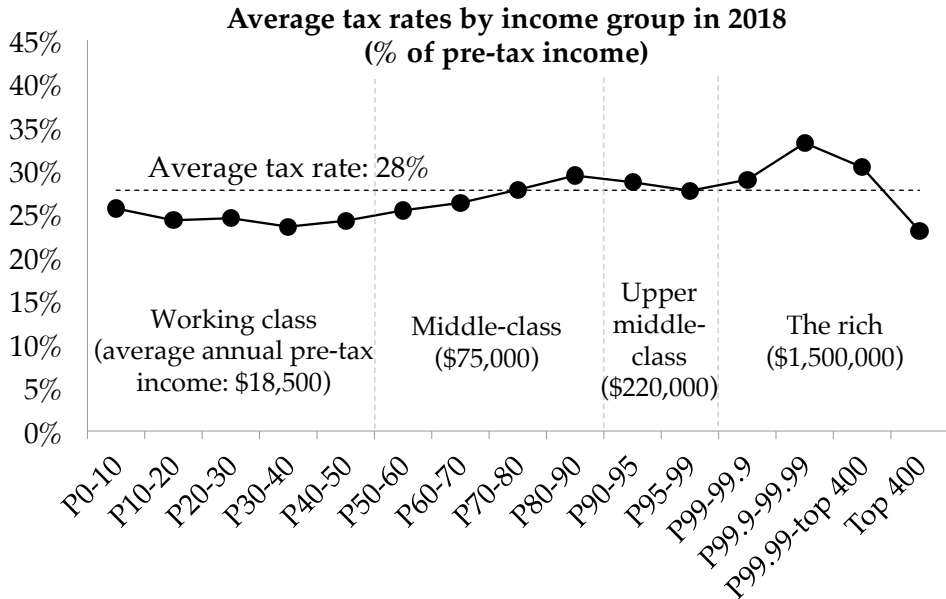
# The Regressivity of the Current US Tax System

# A comprehensive view of the US tax system post-Trump tax reform

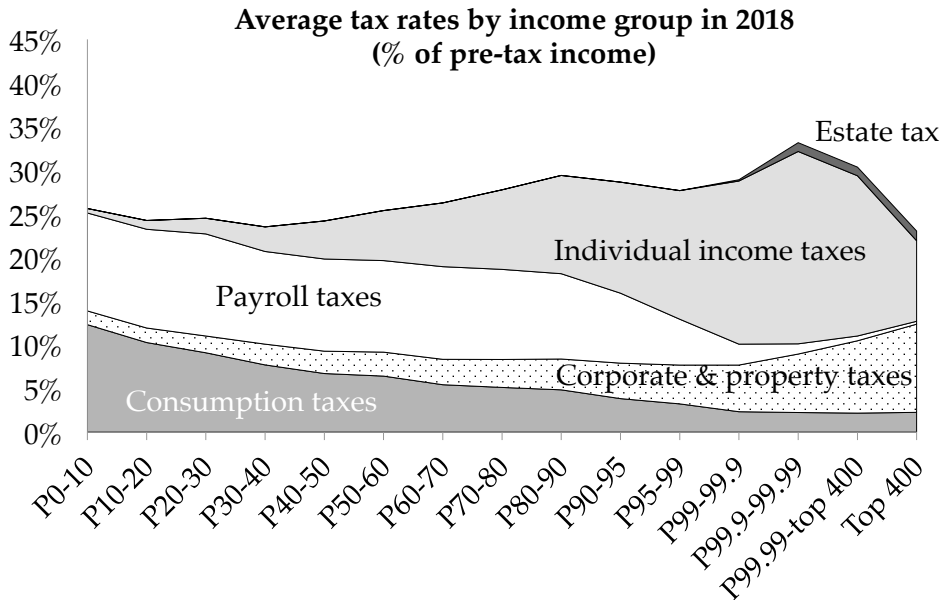
Considering **all taxes paid at all levels of governments in 2018**, we find that:

- ▷ 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



# The US flat tax: Composition by type of 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

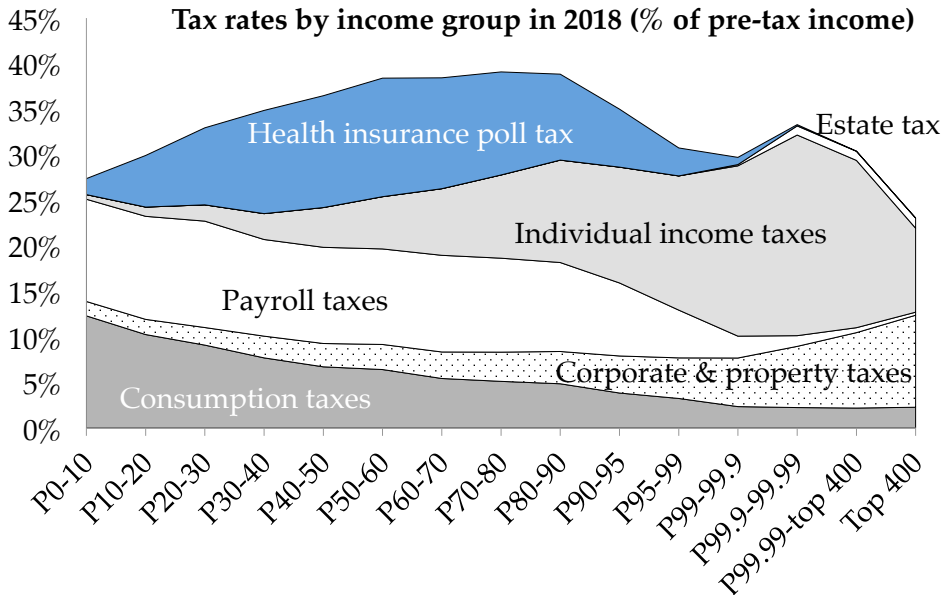
## **Everybody needs health care and it is expensive**

- ▷ 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

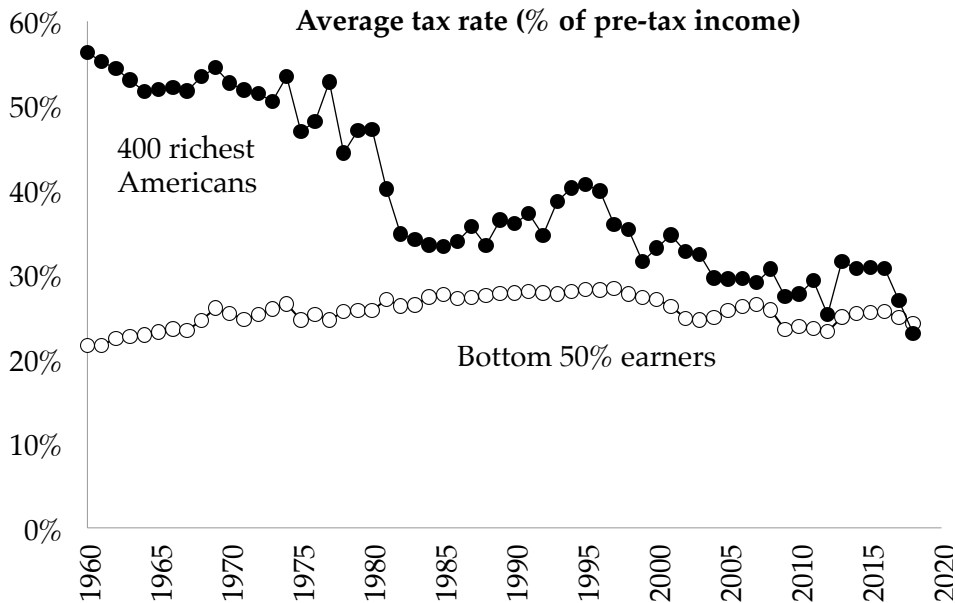
# The US tax system: flat... or massively regressive?



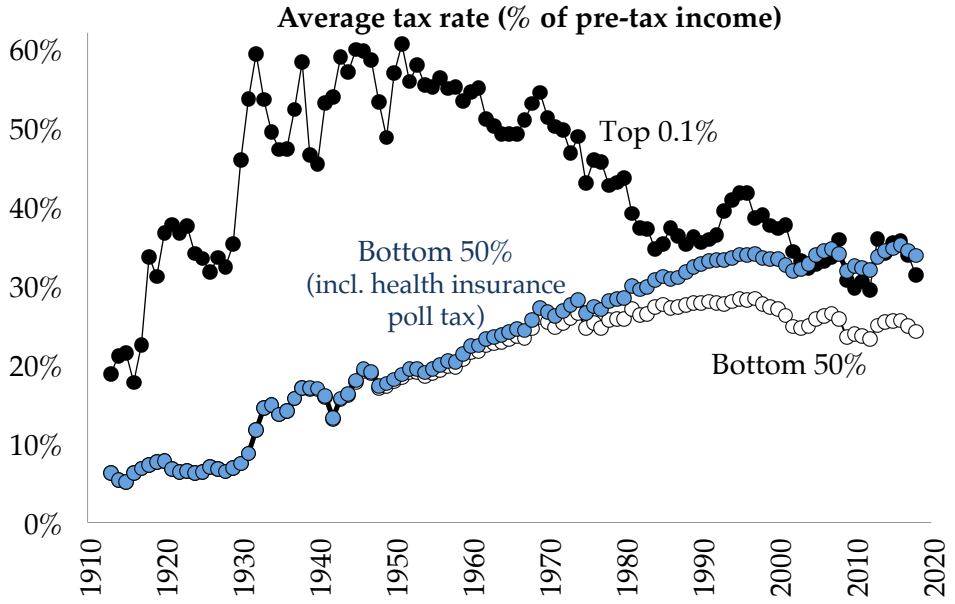
# Long-Run Changes in Tax Progressivity in America



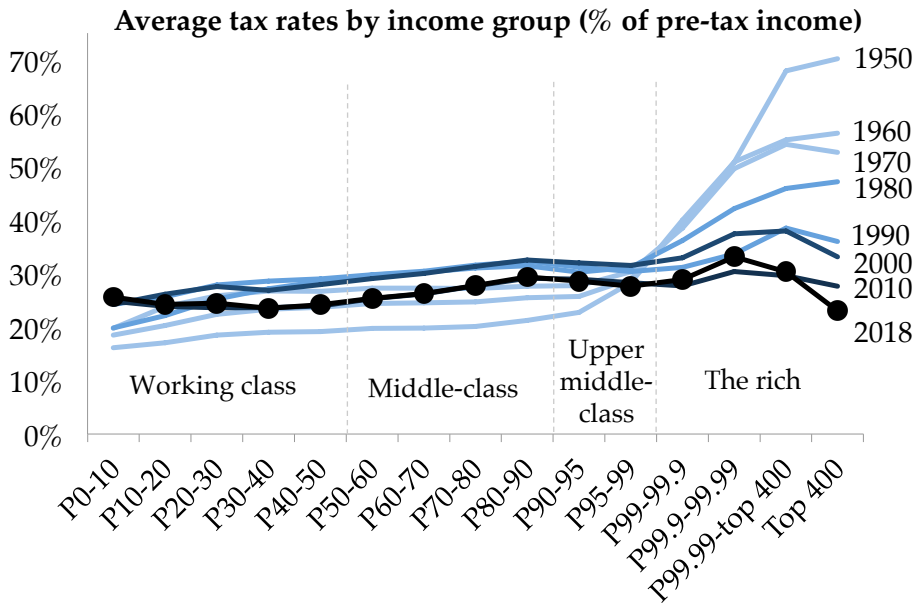
# For the first time in 2018, billionaires paid lower tax rates than the working class



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



# The shrinking progressivity of the US tax system



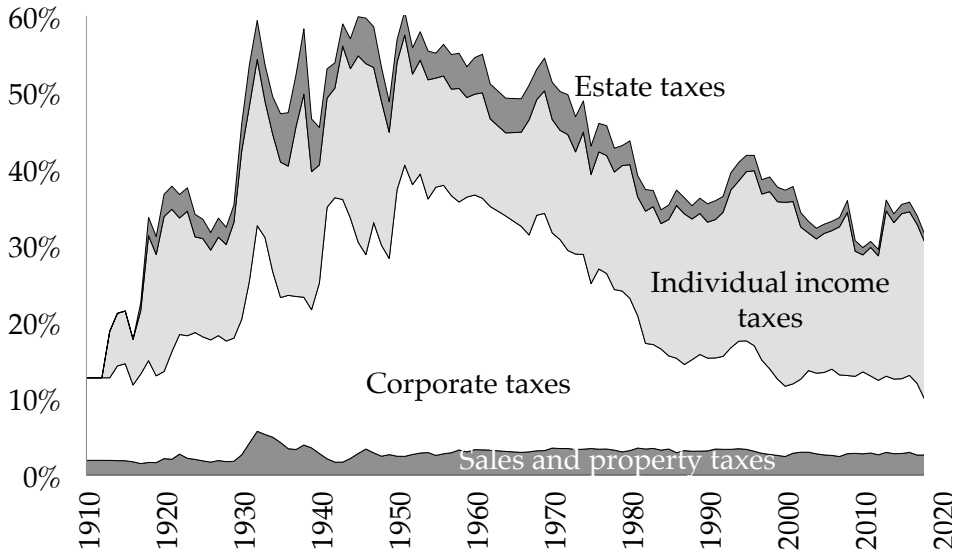
# Why has tax progressivity collapsed?

## Three main drivers of declining progressivity:

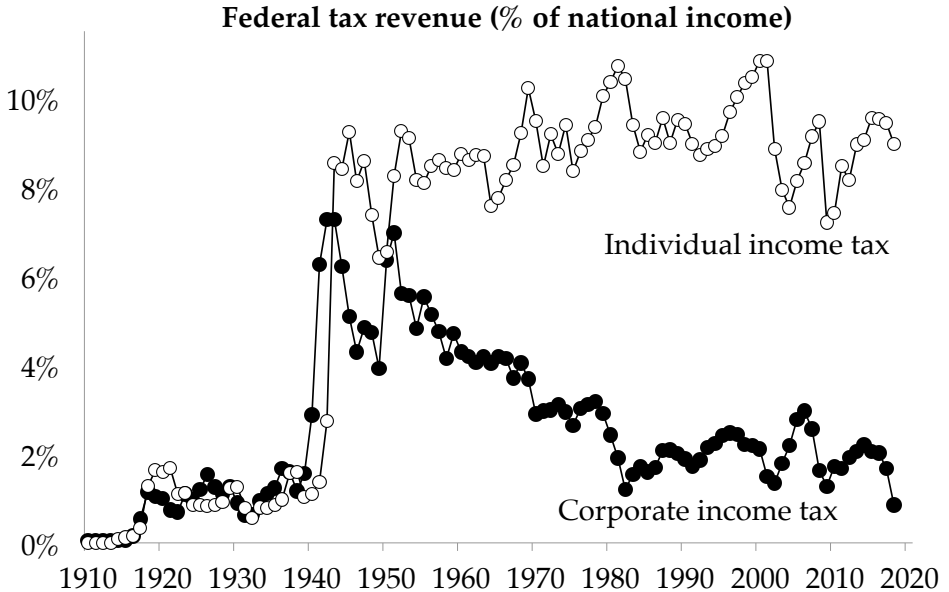
1. Collapse in capital taxation, itself reflecting changes in politics and ideology
2. Choice to tolerate certain forms of evasion. **Let avoidance fester → slash rates → repeat**
  - ▷ 1980s: individual income tax → Reagan 1986
  - ▷ 2000s-2010s: corporate tax → Trump 2017
3. Globalization in its current 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

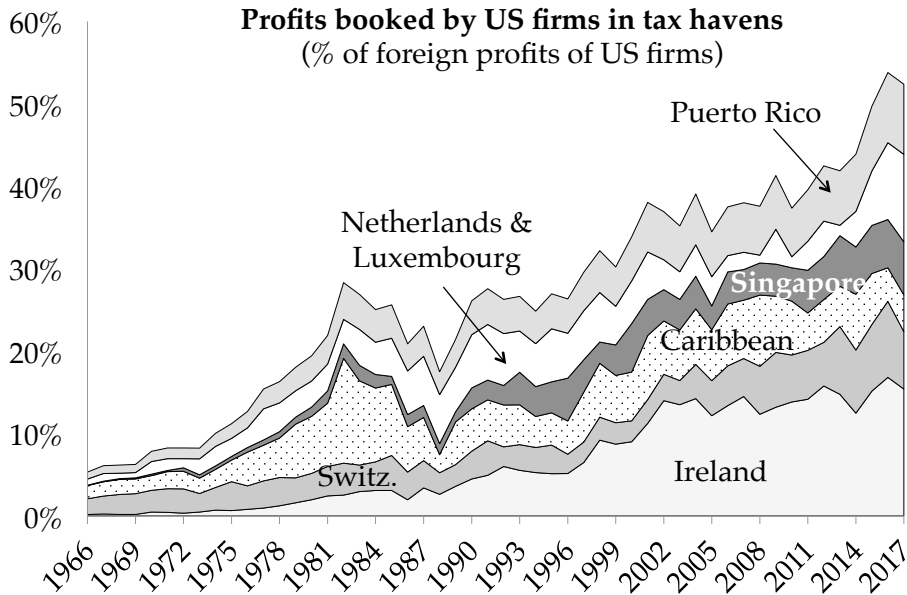
Average tax rate of the top 0.1% (% of pre-tax income)



# The slow agony of the corporate tax

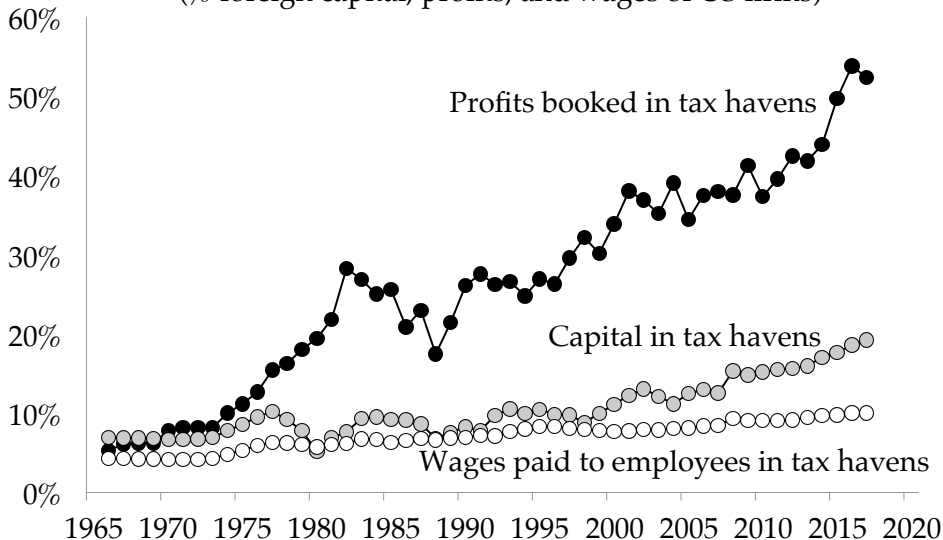


# Letting tax evasion fester: The case of the corporate tax



# 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.**

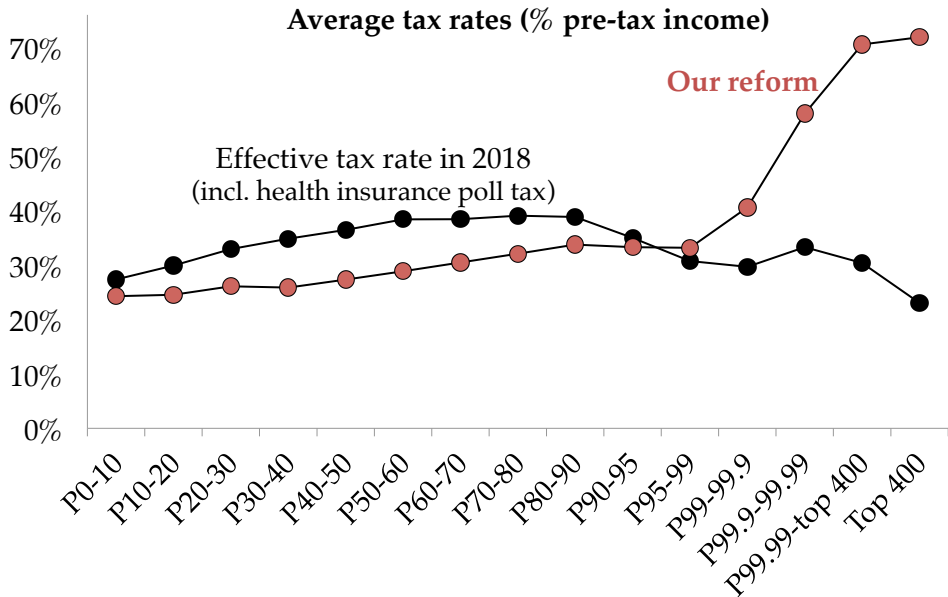
# Elements for a 21st Century Tax System

# 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](http://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**

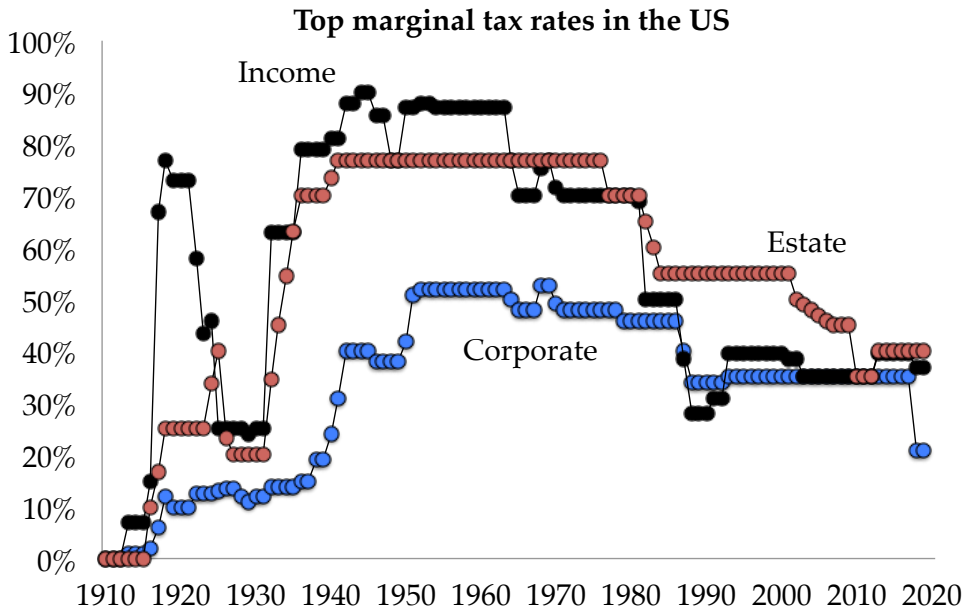
- ▷  $\geq 70\%$  estate tax rate 1936–1980
- ▷  $\geq 90\%$  top income tax rates
- ▷ And very big corporate tax on profits at source

## **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

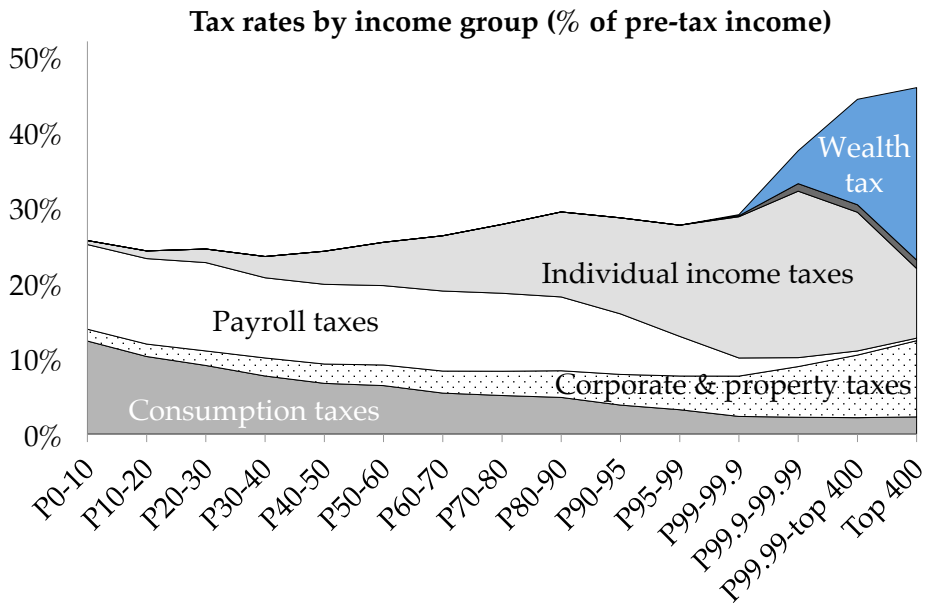


# Reinventing wealth taxation for the 21st century

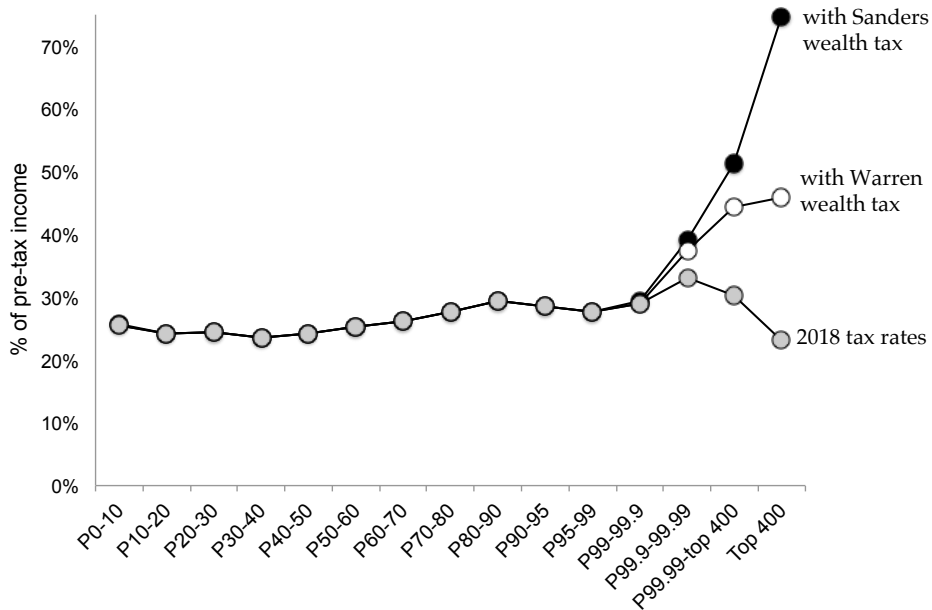
**3 goals:** 1) generate revenue to complete the US social state, 2) restore tax progressivity, 3) curb extreme wealth

- ▷ **Warren 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**

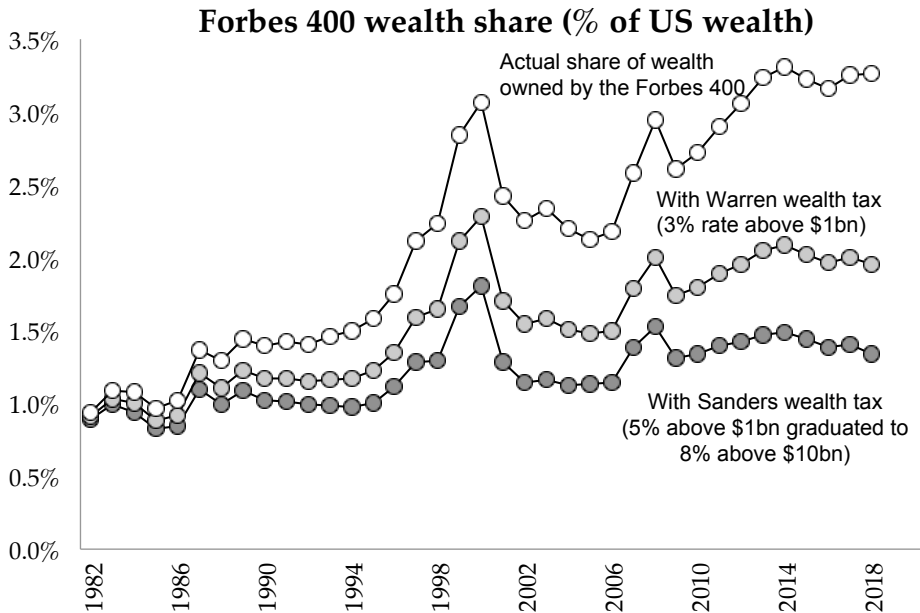
# The Warren wealth tax would have a big impact on tax progressivity at the top



# The Warren and Sanders wealth taxes and progressivity



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

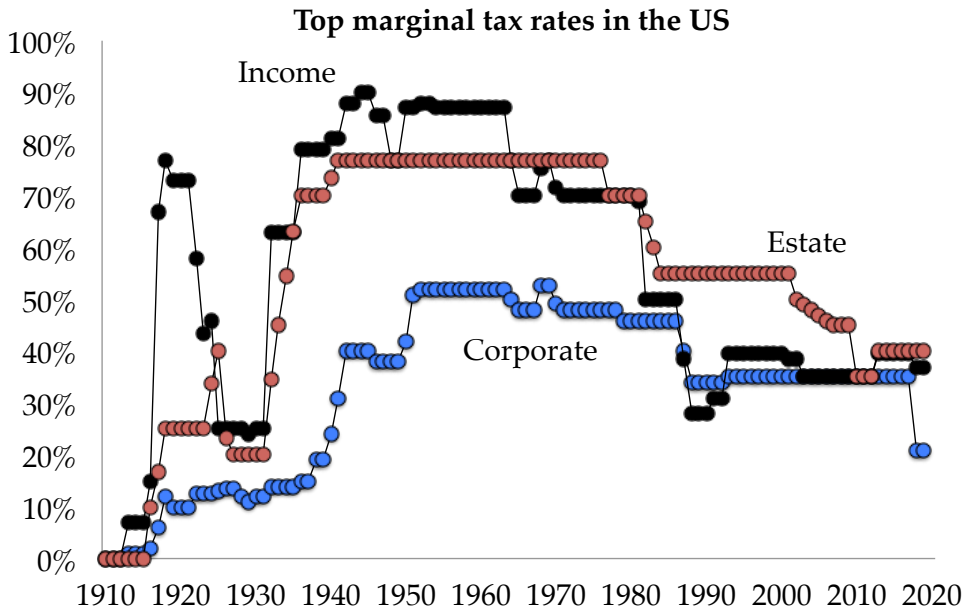


# If the Warren and Sanders wealth taxes had been in place since 1982...

## Long-Term Wealth Taxation and Top Wealth Holders

|                                 |                 | Current 2018<br>wealth<br>(\$ billions) | With Warren<br>wealth tax (3%<br>above \$1b)<br>since 1982 | With Sanders<br>wealth tax (5%<br>above \$1b up to<br>8% above \$10b) |       |
|---------------------------------|-----------------|---|--|---|-------|
| <b>Top Wealth Holder Source</b> |                 |   |  |   |       |
| 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 |

# The progressive fiscal tradition in America



# 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

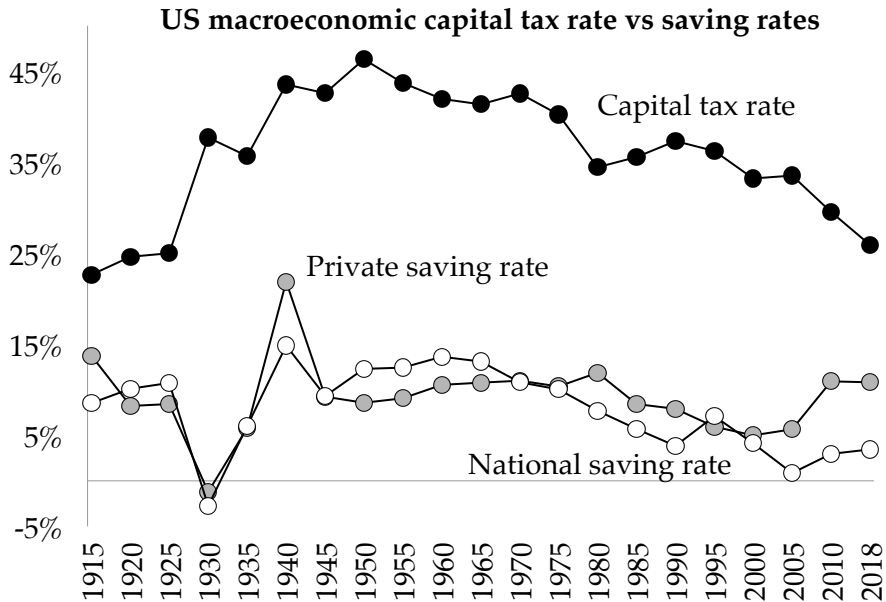
Other countries use VAT and payroll taxes to fund health. But **these taxes are regressive & have narrow base**

- ▷ 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



# TaxJusticeNow.org

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

# TaxJusticeNow.org

 THE TRIUMPH OF INJUSTICE

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, ...)

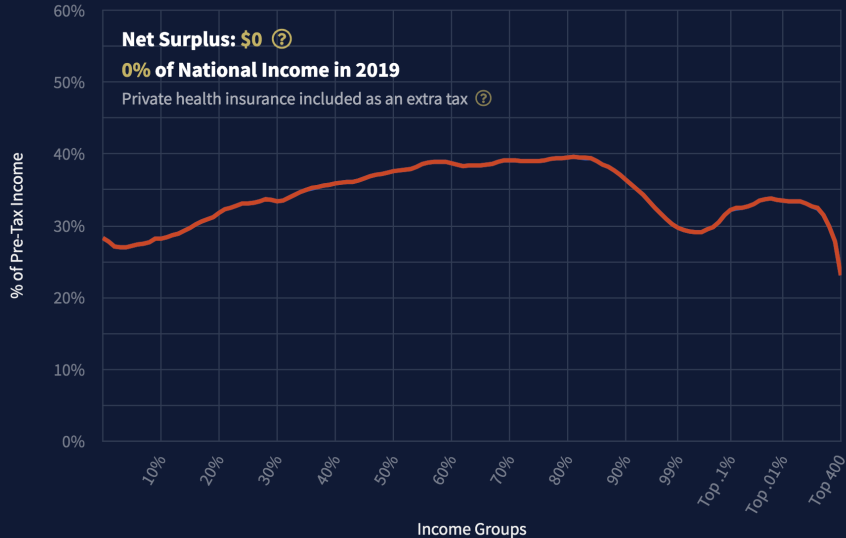
## **What the website does:**

- ▷ 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...

GRAPH VIEW: **TAX RATES** ⓘ | TAX BREAKDOWN ⓘ

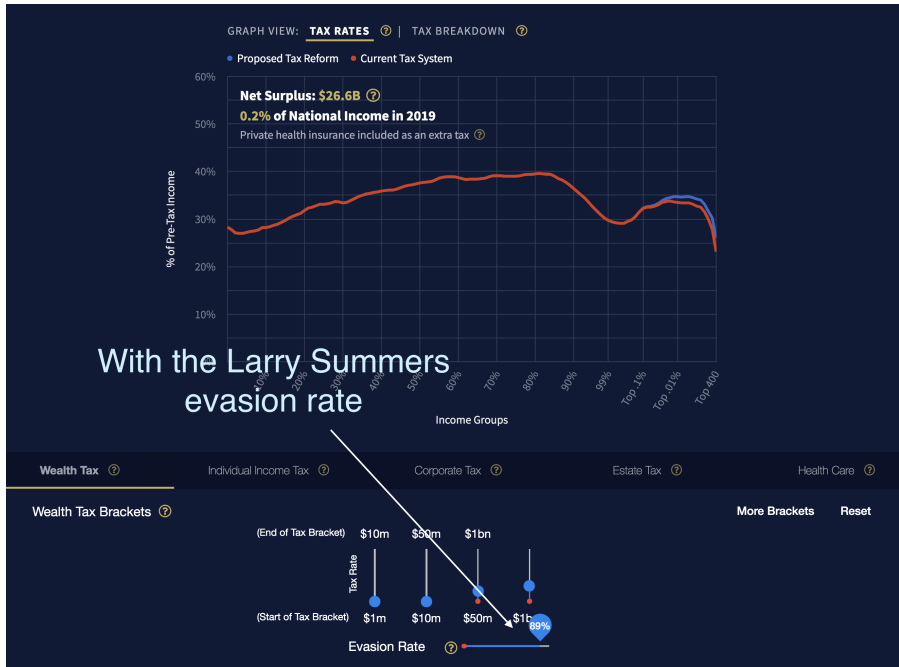
• Proposed Tax Reform • Current Tax System



# You can construct Warren's wealth tax...

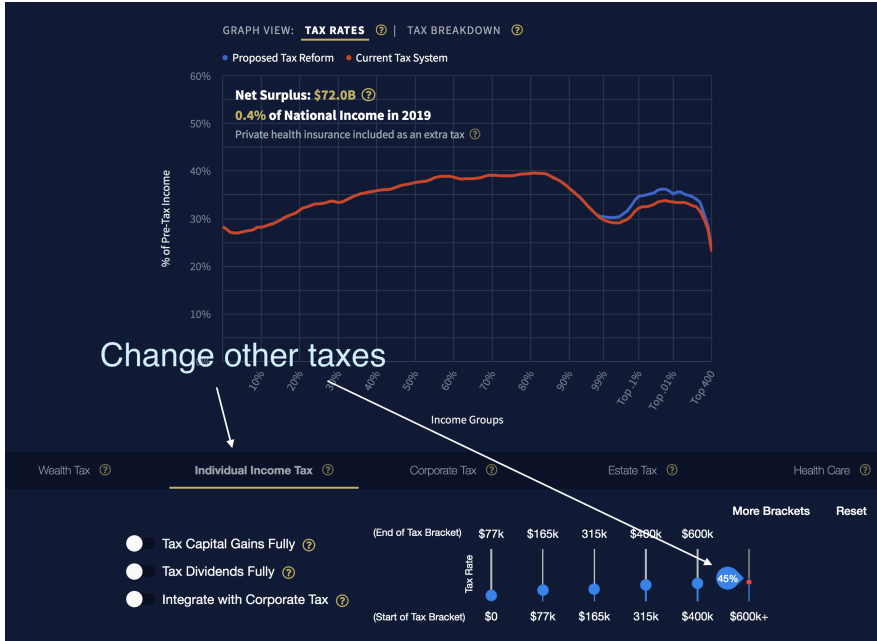


# Select a plausible evasion tax rate...

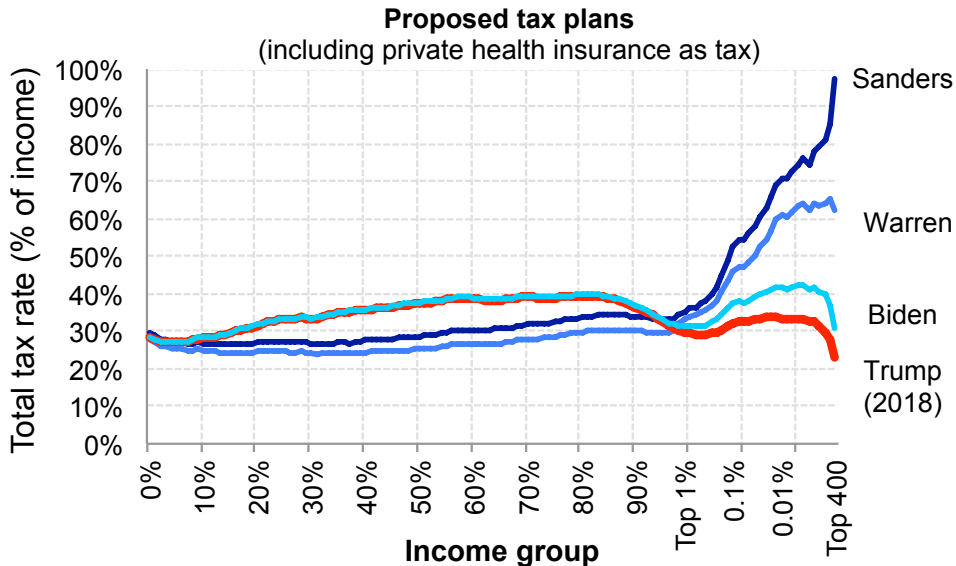




# Change other taxes...



# Tax simulator models the candidates tax plans...



# 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](http://TaxJusticeNow.org)
- ▷ making sure the plumbing is done well (E. Duflo)