The Rich Really Do Pay Lower Taxes Than You

nytimes.com/interactive/2019/10/06/opinion/income-tax-rate-wealthy.html

By David Leonhardt Oct. 6, 2019

6 octobre 2019

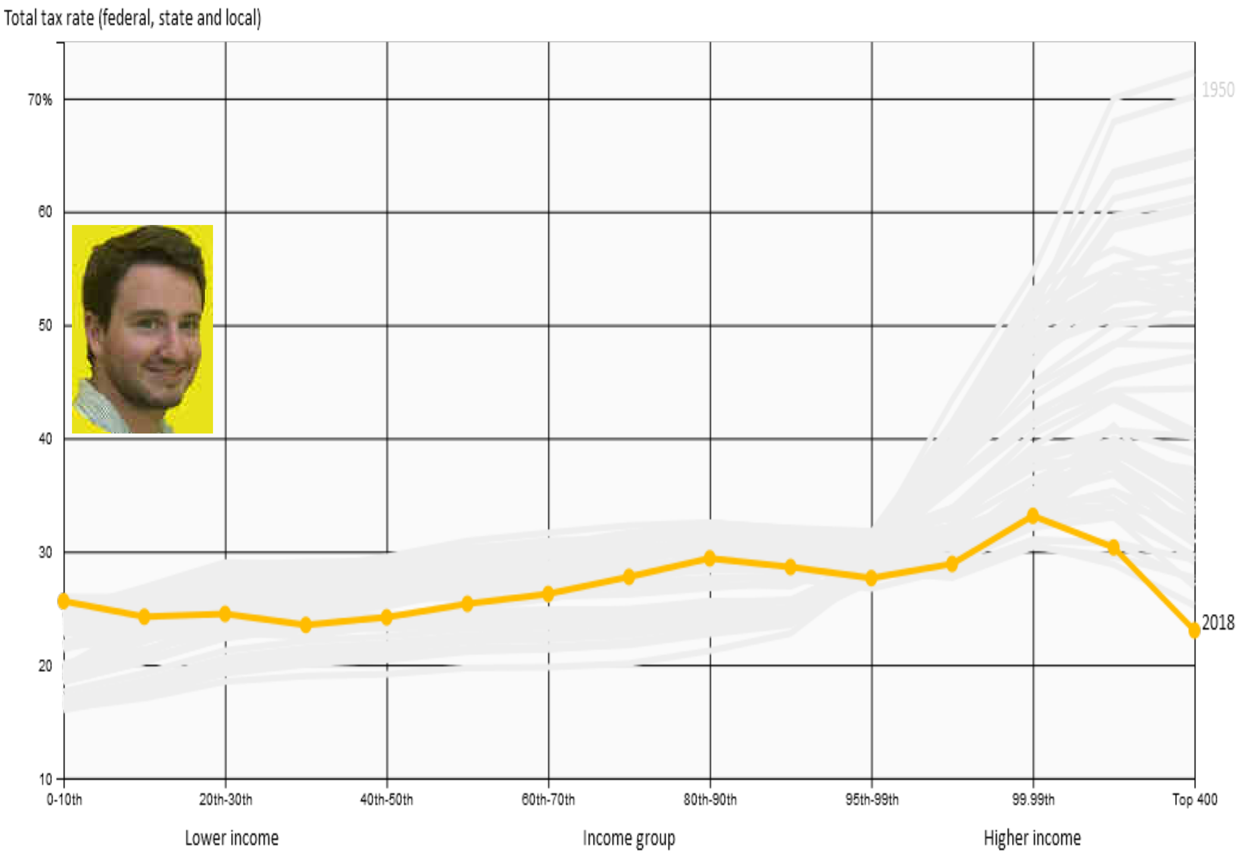
Almost a decade ago, Warren Buffett made a claim that would become famous. He said that he paid a lower tax rate than his secretary, thanks to the many loopholes and deductions that benefit the wealthy.

His claim sparked a debate about the fairness of the tax system. In the end, the expert consensus was that, whatever Buffett's specific situation, most wealthy Americans did not actually pay a lower tax rate than the middle class. "Is it the norm?" the fact-checking outfit Politifact asked. "No."

Time for an update: It's the norm now.

For the first time on record, the 400 wealthiest Americans last year paid a lower total tax rate — spanning federal, state and local taxes — than any other income group, according to newly released data.

click here to see the animation



That's a sharp change from the 1950s and 1960s, when the wealthy paid vastly higher tax rates than the middle class or poor.

Since then, taxes that hit the wealthiest the hardest — like the estate tax and corporate tax — have plummeted, while tax avoidance has become more common.

President Trump's 2017 tax cut, which was largely a handout to the rich, plays a role, too. It helped push the tax rate on the 400 wealthiest households below the rates for almost everyone else.

The overall tax rate on the richest 400 households last year was only 23 percent, meaning that their combined tax payments equaled less than one quarter of their total income. This overall rate was 70 percent in 1950 and 47 percent in 1980.

For middle-class and poor families, the picture is different. Federal income taxes have also declined modestly for these families, but they haven't benefited much if at all from the decline in the corporate tax or estate tax. And they now pay more in payroll taxes (which finance Medicare and Social Security) than in the past. Over all, their taxes have remained fairly flat.

The combined result is that over the last 75 years the United States tax system has become radically less progressive.

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The data here come from the most important book on government policy that I've read in a long time — called "The Triumph of Injustice," to be released next week. The authors are Emmanuel Saez and Gabriel Zucman, both professors at the University of California, Berkeley, who have done pathbreaking work on taxes. Saez has won the award that goes to the top academic economist under age 40, and Zucman was recently profiled on the cover of Bloomberg BusinessWeek magazine as "the wealth detective."

They have constructed a historical database that tracks the tax payments of households at different points along the income spectrum going back to 1913, when the federal income tax began. The story they tell is maddening — and yet ultimately energizing.

"Many people have the view that nothing can be done," Zucman told me. "Our case is, 'No, that's wrong. Look at history.'" As they write in the book: "Societies can choose whatever level of tax progressivity they want." When the United States has raised tax rates on the wealthy and made rigorous efforts to collect those taxes, it has succeeded in doing so.

And it can succeed again.

Saez and Zucman portray the history of American taxes as a struggle between people who want to tax the rich and those who want to protect the fortunes of the rich. The story starts in the 17th century, when Northern colonies created more progressive tax systems than Europe had. Massachusetts even enacted a wealth tax, which covered financial holdings, land, ships, jewelry, livestock and more.

The Southern colonies, by contrast, were hostile to taxation. Plantation owners worried that taxes could undermine slavery by eroding the wealth of shareholders, as the historian Robin Einhorn has explained, and made sure to keep tax rates low and tax collection ineffective. (The Confederacy's hostility to taxes ultimately hampered its ability to raise money and fight the Civil War.)

By the middle of the 20th century, the high-tax advocates had prevailed. The United States had arguably the world's most progressive tax code, with a top income-tax rate of 91 percent and a corporate tax rate above 50 percent.

But the second half of the 20th century was mostly a victory for the low-tax side. Companies found ways to take more deductions and dodge taxes. Politicians cut every tax that fell heavily on the wealthy: high-end income taxes, investment taxes, the estate tax and the corporate tax. The justification for doing so was usually that the economy as a whole would benefit.

The justification turned out to be wrong. The wealthy, and only the wealthy, have done fantastically well over the last several decades. G.D.P. growth has been disappointing, and middle-class income growth even worse.

The American economy just doesn't function very well when tax rates on the rich are low and inequality is sky high. It was true in the lead-up to the Great Depression, and it's been true recently. Which means that raising high-end taxes isn't about punishing the rich (who, by the way, will still be rich). It's about creating an economy that works better for the vast majority of Americans.

In their book, Saez and Zucman sketch out a modern progressive tax code. The overall tax rate on the richest 1 percent would roughly double, to about 60 percent. The tax increases would bring in about $750 billion a year, or 4 percent of G.D.P., enough to pay for universal pre-K, an infrastructure program, medical research, clean energy and more. Those are the kinds of policies that do lift economic growth.

One crucial part of the agenda is a minimum global corporate tax of at least 25 percent. A company would have to pay the tax on its profits in the United States even if it set up headquarters in Ireland or Bermuda. Saez and Zucman also favor a wealth tax; Elizabeth Warren's version is based on their work. And they call for the creation of a Public Protection Bureau, to help the I.R.S. crack down on tax dodging.

I already know what some critics will say about these arguments — that the rich will always figure out a way to avoid taxes. That's simply not the case. True, they will always manage to avoid some taxes. But history shows that serious attempts to collect more taxes usually succeed.

Ask yourself this: If efforts to tax the super-rich were really doomed to fail, why would so many of the super-rich be fighting so hard to defeat those efforts?

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