CALVIN COOLIDGE PRESIDENTIAL FOUNDATION

Debate Brief · Taxation

Resolved: Wealthy Americans already pay their fair share of taxes.

"We're not going to deprive any of these executives their second or third home.… It's fair to say this is about making the average multimillionaire pay just a fair share. It's not going to affect their standard of living a little bit."
– President Joe Biden, Remarks on the American Rescue Plan, May 5, 2021

"Our tax system is rigged for billionaires who don't make their fortunes through income, like working families do."
—Senator Elizabeth Warren, Twitter, June 8, 2021

"In this country we neither create nor tolerate any distinction of rank, race, or color, and should not tolerate anything else than entire equality in our taxes."
—Vermont U.S. Senator Justin Morrill, 1866

"I want taxes to be less, that the people may have more."
—President Calvin Coolidge,
Remarks to a Group of Labor Leaders Visiting the White House, October 23, 1924

"Don't expect to build up the weak by pulling down the strong."
—President Calvin Coolidge,
"Have Faith in Massachusetts," January 7, 1914

ABOUT THE COOLIDGE FOUNDATION

The Calvin Coolidge Presidential Foundation is the official foundation dedicated to preserving and promoting the legacy of America's 30th president, Calvin Coolidge, who served in office from August 1923 to March 1929. These values include civility, bipartisanship, and restraint in government, including wise budgeting. The Foundation was formed in 1960 by a group of Coolidge enthusiasts, including John Coolidge, the president's son. It maintains offices at the president's birthplace in Plymouth Notch, Vermont, and in Washington, D.C. The Foundation seeks to increase Americans' understanding of President Coolidge and the values he promoted.

BACKGROUND

As Congress continues to consider several trillion dollars of infrastructure spending, taxes are once again at the forefront of Americans' minds. And, inevitably, when taxes are the topic, questions arise about who should shoulder the burden. Foremost among them, "do the rich pay their fair share?"

At the heart of the discussion here is the definition of "fair." Is fairness fairness for all, collective, or is fairness individual? If you decide that it is fair to collect taxes from some individuals to pay others, how do you get enough money? Some people favor **utilitarian** arguments for tax rate increases, that is, they say, raise tax rates, and the government will get more money. Some people make **utilitarian** arguments for lower rates: if we lower tax rates, people will feel less burdened, and will earn more, so that they pay more taxes in dollars even at a lower rate. (See the evidence from Coolidge's period, or from the Laffer Curve, below). Senator Elizabeth Warren might argue for more taxes on companies or business transactions, so there is more money to help working people. But one could also argue that heavier taxes or more rules will make rich people provide fewer jobs or less money to charity. The second way people define fairness is **morally**: it is unfair for the poor not to get what they need. Or it is unfair, immoral, to force the rich to give up more than a certain share of their income. The tax code is complex and becoming more so. Is it unfair and an offense to liberty to visit tax scrutiny on someone for years on end, as our tax authorities often do? As Will Rogers, a humorist who was friendly with the Coolidges, said, "Even when you make a tax form out on the level, you don't know when it's through if you are a crook or a martyr."

Your job is to define "fair" and make an argument for one side or the other.

One problem with discussing taxation is that people use different definitions when they do, or even shift definitions (tricky!). This debate is about the total tax you pay, but that total tax includes a number of components. When you find a contradiction in the media, don't throw up your hands and say "they're all liars." Rather try to find how speakers define tax, and then you will understand where the argument comes from. There is the income tax, the tax you pay on earnings. But other taxes and benefits exist, and muddy the discussion. Example: "the rich pay a lower rate." This is normally arguable only if you include a special kind of tax that is different from the income tax. It is the capital gains tax, the tax on profits you earn when you buy or sell something such as a share of stock in a company or a building. Only a few Americans operate principally in the capital gains arena, and the press highlights those superstars' cases, ignoring all the professional class income tax crowd, to make the case that the rich pay too little. You can argue that the income tax is fair but the capital gains tax is not. Here you might use a quote from Senator Elizabeth Warren, "Our tax system is rigged for billionaires who don't make their fortunes through income, like working families do." Insofar as capital gains tax rates are lower than income tax rates, Senator Warren is correct. Or you can argue that neither capital gains or income tax rates should go up because at those rates there will be less revenue from rich people, and therefore less money for the poor. Or you can argue that it is unfair per se for anyone rich to have a low rate anywhere.

A brief outline on the way money flows. More than half of Americans get more help from the federal government than they pay in. That help might come in the form of payments from the government such as unemployment, welfare, Social Security pensions, or food stamps. Such payments are called transfers. The Congressional Budget Office estimates suggest that the lowest-earning 60% of Americans receive net benefits for taxes paid compared to services received, whereas the 40% with the highest incomes pay for those benefits.[1] A break might come in lower obligations on what they pay to the government in tax, for example, through a tax credit for low earners called the Earned Income Credit, or though the mortgage interest deduction for homeowners. In terms of moneys people pay, in there is also Social Security, on the paystub as "payroll tax" or FICA. But Social Security also gives back when you are old, in the form of a pension. So Social Security can be treated as insurance.

Another factor is that capital gains tax, which mostly wealthy people pay. This tax, which has a lower rate than the income tax, is what makes it possible to argue that a single rich person pays little taxes. As Judge Learned Hand wrote, the law is such that "[a]nyone may arrange his affairs so that his taxes shall be as low as possible; he is not bound to choose that pattern which best pays the treasury. There is not even a patriotic duty to increase one's taxes." You don't have to agree with this, but if you want to argue against it, then you must argue to change the law. Then there is that third tax, the most generally referenced tax, the income tax. The income tax features a progressive rate structure. Progressivity means that when you get a raise, you don't just pay more. You pay a greater share of the raise to the government than you pay on your base income. As a result of progressivity, all totaled, the wealthiest 10% of American earners pay 60.3% of income taxes paid.[2] Nor do federal taxes present the whole picture: most states have their own income tax structures, and others command revenue through other means, such as property taxes.

Where does history fit in? Debates over American tax fairness—with differing definitions—predate even the Constitution. To avoid the appearance of an American version of 'taxation without representation,' the Articles of Confederation initially prohibited the Federal Government from collecting taxes. This proved a disaster, because the federal government owed citizens some services and needed revenue. The need for new tax policy then precipitated the formation of the Constitution. Nor has tax policy remained consistent since

[1] The Distribution of Household Income, 2017. Congressional Budget Office. Published October 2, 2020.

[2] York, Erica. "Summary of the Latest Federal Income Tax Data, 2021 Update" Tax Foundation. February 3, 2021.

then. Administrations from every party and time period, responding to stimuli both external and internal, have sought to adjust tax rates and redefine taxes and fairness as they saw fit.

In the last century and a half alone, the highest marginal income tax rates have ranged from nothing to 73% to 24% in 1929 to more than 90% in the 1950s.[3] Under Presidents Kennedy and Reagan, rates were pushed down dramatically. Today, that top income rate is 37%, incurred on any income in excess of $518,400 a year for a single filer, and $622,050 for married couples.[4] And that rate does not include Medicare, Medicaid, and Social Security payroll taxes. The top capital gains tax rate on long term capital gains is 20%.

Today taxes are again in play. An online search asking whether America's wealthiest pay their fair share will return millions of hits, fronted by dozens of conflicting think-tank reports, opinion pieces, and economic analyses. We know you can figure out arguments for both sides from the information below.

---

[3] Historical Highest Marginal Income Tax Rate. Urban Institute & Brookings Institution. Accessed June 11, 2021.

[4] IRS 2020 1040 and 1040-SR Tax and Earned Income Credit Tables, p. 15. See, https://www.irs.gov/pub/irs-pdf/i1040tt.pdf.

COOLIDGE CONNECTION

Accompanying his father, "Colonel" John Coolidge on tax collection rounds ingrained in Calvin Coolidge at an early age "that when taxes were laid some one had to work to earn the money to pay them."[5] Coolidge's father chose not to support one tax increase in the village not because the Coolidges couldn't afford the tax, but because he feared others could not. Father John knew this from his own experience that sometimes people couldn't pay their bills to the store, which John Coolidge also ran.

Coolidge's early experience watching hard-working Vermont farmers leave their fields to gather and pay their taxes with earnings wrought from the soil, combined with his experience helping run the family farm and general store, sheds a great deal of light on Coolidge's views on tax policy and government in general. Taxation, for Coolidge, was a fundamentally moral matter. In 1924, Coolidge stated that "the power to take a certain amount of property or of income is only another way of saying that for a certain amount of his time a citizen must work for the government."[6]

Taxes are not confined to the black ink on paper; there are people on the other side who must earn the means to pay them. It takes only a quick acquainting with Coolidge's presidency to see that reducing the tax burden, "whenever the Treasury [could] permit,"[7] was a high priority. Coolidge expressed his views on taxation surprisingly often for a president nicknamed 'Silent Cal.' In his 1925 inaugural address, Coolidge stated that "the only Constitutional tax is the tax which ministers to public necessity,"[8] and that collecting revenue beyond what is required is "legalized larceny."[9] For Coolidge, "the first object of taxation is to secure revenue."[10] It is wrong for the government to collect more taxes than are required by the public necessity, regardless of how that public necessity is defined.

But Coolidge's preference for low taxes does not mean he favored a system of no taxes. Indeed, Coolidge's insistence that taxes be tied to the "public necessity" implies the existence of the public necessity, and thus, that at least some taxation is necessary. Coolidge was careful to note that: "[t]he success of the Government does not lie in wringing all the revenue it can from the people, but in making their burden as light and fairly distributed as possible, consistent with the proper maintenance of the necessary public functions."[11] In other words, even if it is necessary to collect revenue via taxes, necessity per se does not mean more is merrier. Taxes should be both as minimal, Coolidge thought, and fairly distributed as possible.

---

[5] *The Autobiography of Calvin Coolidge*, p. 17.
[6] "Meeting of the Business Organization of the Government," on June 30, 1924. As found in *Coolidge: An American Enigma*.
[7] "State of the Union Address," on December 8, 1925. As found in *Messages and Papers of the Presidents*.
[8] "Inaugural Address," March 4, 1925. As found in *The Mind of the President*.
[9] Ibid.
[10] *Coolidge and the Historians*, p. 109.
[11] "Annual Luncheon of Associated Press," on April 22, 1924. As found in *Messages and Papers of the Presidents*.

It was important to Coolidge not just to keep the total amount of revenue to be collected within the confines of public necessity, but to determine at which rates and from whom taxes were to be collected. Though Coolidge is sometimes presented as a blind ally of 'Big Business,' the New Englander often voiced concern specifically for the tax burden placed on and disproportionately felt by lower income Americans, or "small taxpayers." In discussing optimal tax rates for different income strata: "...if the rates of large incomes are so high that they disappear, the small taxpayer will be left to bear the entire burden. If on the other hand, the rates are placed where they will secure the most revenue from large incomes, then the small taxpayer will be relieved."[12] Optimally calibrated tax rates more efficiently collect from high-income taxpayers, thereby alleviating burdens that otherwise would have fallen on "small taxpayers."

To Coolidge, however, relief for the small taxpayer did not mean raising taxes on large taxpayers. The question of fairness is separate from that of practicality. And as a practical matter, Coolidge argued, increasing tax rates does not guarantee increased revenues. "Excessively high tax rates defeat their own purpose," Coolidge argued, because "[t]hey dry up that source of revenue and leave those paying lower rates to furnish all the taxes."[13] In his first Annual Message to Congress in December 1923, Coolidge advocated the prohibition of tax-exempt securities because they allow, "a large amount of wealth of the nation to escape its just burden. All the wealth of the nation ought to contribute its fair share to the expenses of the nation."[14] While Coolidge's reference here to a "just burden" tells us only about his disagreement with tax-exempt securities, it still goes to show the role fairness played in his evaluation of policy.

Appealing to the moral element of taxation, Coolidge did not want any given taxpayer or tax bracket to pay more in taxes than was necessary. He doubted that even the cleverest tax expert could craft a complex tax structure fairly. "No matter what anyone may say about making the rich and the corporations pay the taxes, in the end they come out of the people who toil. It is your fellow workers who are ordered to work for the Government, every time an appropriation bill is passed."[15] In addition, Coolidge did not believe in keeping taxes low if that meant big deficits. To underscore his point, he named his twin lion cubs "Budget Bureau" and "Tax Reduction." But we do not know whether Coolidge would have approved of Ronald Reagan's tax cuts, undertaken in a time of deficit.

---

[12] *Coolidge and the Historians*, p. 109.
[13] *Calvin Coolidge of Northampton*, p. 12-13.
[14] "First Annual Message to Congress," on December 6, 1923. As found in *The Mind of the President*.
[15] "The High Place of Labor," on September 1, 1924. As found in *The Mind of the President*.

In Coolidge’s time, Andrew Mellon, Treasury Secretary, ran a utilitarian experiment of what he called “Scientific Taxation.” Rates were high. If they went lower, Mellon argued, the government might get more money than the static arithmetic projected. The Statistics of Income of the Treasury suggest that is true: business activity increased, so more money than suggested came in, though not as much as before.

KEY TERMS

Tax – A compulsory payment that is demanded by the government, typically levied on individuals' incomes, business profits, or added to the cost of goods, services, and transactions.

Tax Complexity — The tax code is like a classroom with so many rules that pupils can't understand them. Complexity may be necessary for fairness. Lawmakers or regulators write complicated rules in order to avoid hurting certain vulnerable groups. Or complexity may limit fairness. Complexity has a cost. Instead of doing work and creating work people get bogged down with advisors, and lose trust in the government.

Progressive Tax — A tax system that ultimately places a greater tax rate on individuals with higher income. That is, a higher earner not only pays more in dollars on his top earnings, he pays a greater share of those top earnings. Nearly all income taxes are progressive.

Regressive Tax Structure — A tax system that forces the poor to pay a greater share of their income than the rich pay. The opposite of progressive. Some chose to treat Social Security as a tax – not as insurance. If you do that, and ignore the payments to retirees, you can easily make the argument that Social Security in isolation is regressive.

Progressive Rate Structure — A progressive rate structure is like a staircase for all. You start at a low rate and move up in tax brackets. At the top rate, or stair, you pay the highest rate. Normally that rate affects only the last dollars you earned above an income schedule, not your entire earnings.

Average Tax Rate — The average rate you pay on all your income. This differs from the top or marginal rate on that last bit of income.

Flat Tax — A system which proposes taxing all individuals at the same fixed rate, instead of creating income-dependent brackets. Flat taxes are often considered slightly regressive by economists, as wealthier individuals can more easily bear the same tax burden.

Income Tax — A tax levied on all citizens' income. The U.S. Federal Income Tax is graduated and progressive, consisting of 7 different tax brackets which scale with income level.

Capital Gains Tax — A tax on the profit an individual makes from the sale of an asset, such as a house or share of stock. The U.S. Federal Capital Gains Tax has three rates (0%, 15%, and 20%).

Consumption Tax — A tax that is levied when an individual spends money, rather than when he or she realizes income. Consumption taxes are often proposed as an alternative to the Income Tax/Capital Gains Tax regime.

Informal Economy — The part of the economy that is neither taxed nor regulated by the government, often derived from cash-payment service markets. Data suggest that the heavier the tax regime, the more the informal economy, or black market, grows.

Tax Credit — An incentive that qualifying individuals can apply against the total balance of taxes owed. Refundable tax credits can result in negative taxation if they exceed due taxes.

Marginal Value of a Dollar — The concept that the more wealth one acquires, the less value anyindividual dollar can create for him or her. Bill Gates losing $20 per month means virtually nothing to his quality of life, whereas for someone who is unemployed, that $20 could be the difference between eating or missing a meal.

Laffer Curve — In economics, the Laffer Curve shows the relationship between tax rates and the amount of overall tax revenue collected by the government. It is used to illustrate the idea that cutting tax rates can sometimes result in greater total tax revenue raised than the simple math suggests.

Quintile — A statistical value representing 20% of a data set. The first quintile represents 0% to 20%, the second quintile 21% to 40%, and so forth.

Andrew Mellon — Treasury Secretary to Presidents Harding, Coolidge, and Hoover. Mellon was a proponent of “Scientific Taxation.”

AFFIRMATIVE ARGUMENTS

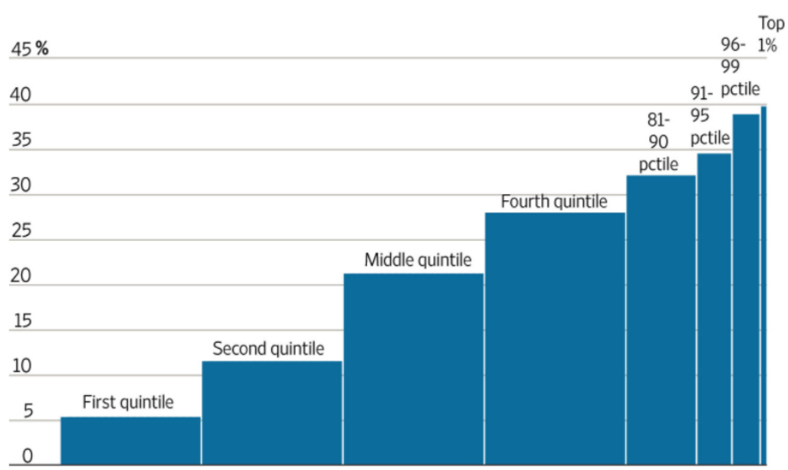
1. Wealthy Americans currently pay more in taxes than other groups pay.

> "[T]he top 0.1% of earners, which included 127,586 households in 2017, had an average gross income of $2,892,434 and paid $1,304,769, or 45.1%, in federal, state and local taxes."
>
> Source: Gramm, Phil, and John Early. "Wealthy Americans Already Pay Their Share" *Wall Street Journal*. Feb. 25, 2020.

The simplest way of determining whether a payment arrangement is fair is to ask: does everyone pay the same? With our current system of progressive taxation, wealthy Americans in the U.S. pay more of their incomes in taxes than non-wealthy Americans.

There are different ways to analyze the data. One way to look at the status quo reveals that the top one-fifth of U.S. households received 54% of all income and paid 69% of all the federal taxes. Similarly, the top 1% of U.S. households received 16% of the income and paid 25% of all federal taxes.[16] Looking at it a different way, data from the nonpartisan Congressional Budget Office show that the wealthiest 1% of the population pay an average federal tax rate of 32%, whereas the poorest 20% of the population pay an average tax rate of just 1%.[17] In other words, wealthier households are paying a greater portion of federal taxes than they would, in theory, be responsible for compared to a purely "flat" tax system where each group paid the same proportion of their income in taxes. This all suggests that wealthy Americans do not merely already pay their fair share—they pay *more* than their fair share. See Figure 1.

Figure 1. All Taxes Paid as a Percentage of Earned Income, Plus Transfer Payments



Source: Congressional Budget Office, Office of Management and Budget, National Bureau for Economic Analysis. Gramm, Phil, and John Early. "Wealthy Americans Already Pay Their Share" *Wall Street Journal*. Feb. 25, 2020.

---

[16] Wessel, David. "Who are the rich and how might we tax them more?" Brookings Institution. October 15, 2019.
[17] Michel, Adam. "In 1 Chart, How Much the Rich Pay in Taxes" Heritage Foundation. March 3, 2021.

2. True fairness consists of treating everyone evenly, not penalizing some for earning more.

Treating people similarly and with the same respect for each individual's right to life, liberty, and property is a critical part of what it means to treat someone fairly. Despite some perhaps good intentions, those who argue that wealthy Americans do not pay their fair share of taxes are not actually advocating in favor of *greater* fairness—they are advocating for treating people *differently* based on their income, which is *less* fair.

To highlight the difference, consider the idea of a flat tax for contrast. Under a flat tax, one tax rate would apply equally to all taxpayers, regardless of income. People who earn more would still pay more taxes *in dollars* than people who earn less, but since the rate (e.g., 5%, 10%, or whatever legislators choose) is the same for everyone, it would represent a fairer and more consistent approach to taxation.[18] If one can recognize the inherent fairness of a flat tax, then by that baseline standard, one would have to agree that under the current system of progressive taxation, wealthy Americans already pay their fair share.

> "Even through a flat tax, under which the rich pay the same tax rate as lower earners, the wealthy will still end up paying more in absolute terms since they have a higher amount of income to tax. But by any reasonable definition, the amount paid by the rich is already beyond their 'fair share.' For example, in 2015, the top 1 percent earned 16.5 percent of income, but paid a staggering 43.6 percent of federal income tax. Meanwhile, more than 44% of Americans pay no federal income tax at all."
>
> Source: Vitelli, Andrew. "Should we raise taxes on the rich?" The Perspective. (2021)

To negate the idea that wealthy Americans already pay their fair share implies that taxes for wealthy Americans should be higher. But as legal scholar and expert on property law and economics Richard Epstein argues, the rich contribute vastly more to society than the poor. They pay more in income taxes, and they supply the capital that builds new factories and contributes to higher levels of production, leading to higher wages and a higher standard of living for everyone. The poor do not fund the infrastructure for the rich; indeed, it is exactly the other way around.[19]

3. Increasing taxes on wealthy Americans would hurt the economy *and* philanthropy.

President Ronald Reagan famously said, "If you want more of something, subsidize it; if you want less of something, tax it." If wealthy Americans do not already pay their fair share of taxes and we accept the implied remedy of raising their taxes, then we can all expect a future with less wealth. The reason why is that raising taxes on wealthy Americans is not good for the economy. Wealthy Americans provide the investment funds that create new businesses, fuel new research and inventions, and expand production (which lowers the prices of all the things we buy). Raising taxes on their activity creates a disincentive for them to do more of what they

[18] Uradu, Lea. "Is a Progressive Tax More Fair Than a Flat Tax?" Investopedia. January 31, 2021.
[19] Epstein, Richard. "A Flat Tax Is A Fair Tax." Hoover Institution. November 2, 2020.

are good at.[20] At a certain point, if the marginal tax rate gets high enough, wealthy business owners and entrepreneurs divert their skills, energy, and capital elsewhere—hurting workers, consumers, and others. However, the point at which this happens is different for every productive business person, making it impossible for any bureaucrat to know *exactly* when the tax rate has become "too high."

A look at the 1920s—Coolidge's era—provides a glimpse of the wisdom of the time. In 1924, Secretary of the Treasury Andrew Mellon urged lawmakers to cut income tax rates, arguing that lower rates would actually raise revenue. Quoting Mellon, "ways will always be found to avoid taxes so destructive in their nature, and the only way to save the situation is to put the taxes on a reasonable basis that will permit business to go on and industry to develop." Concerned that high taxes would stifle economic growth, he proposed lowering the top rate to 25 percent and a reduction in the estate tax, which he called a "levy upon capital."[21]

> In a systematic review of studies on economic growth, 23 of 26 relevant studies found a negative effect of taxes on economic growth. Ranked by harmfulness, researchers estimated that corporate income taxes were the most harmful, followed by personal income taxes, consumption taxes, and property taxes.
>
> Source: McBride, William. "What Is the Evidence on Taxes and Growth?" Tax Foundation. December 18, 2012.

Coolidge supported Mellon's approach to cutting taxes. In the same year, he said in a speech:

> *"So far as it is within my power, I will not permit increases in expenditures that threaten to prevent further tax reduction or that contemplate such an unthinkable thing as increase in taxes. If with increasing business our revenues increase, such increase should not be absorbed in new ways of spending. They should be applied to the lowering of taxes. In that direction lies the public welfare."*[22]

Not only would increasing taxes on wealthy Americans hurt the economy, it would also hurt philanthropy. America is a country of givers. Although it fluctuates from year to year, Americans as a group typically give between $350 and $400 billion per year to charity. In 2020, Americans gave a record $471 billion.[23] Importantly, most of this money (81%) came from individuals, not big foundations or corporations. Bill Gates alone has given more than $45 billion to charity. Taxing wealthy Americans more will reduce the amount of money that philanthropists have available to give to charity.

---

[20] Vitelli, Andrew. "Should we raise taxes on the rich?" The Perspective. (2021)
[21] "Tax History Museum: 1901-1932" TaxHistory.org. Accessed June 16, 2021.
[22] Coolidge, Calvin. "Economy in the Interest of All" June 30, 1924.
[23] Albrecht, Leslie. "Americans gave a record $471 billion to charity in 2020" MarketWatch. June 16, 2021.

4. The inequality that we observe in the U.S. is the result of differences in ability, effort, luck, and other factors—not the result of wealthy Americans failing to pay their fair share of taxes.

Many people are motivated to hold their view about the fairness or lack of fairness of tax rates for the wealthy out of a concern for the growing economic inequality in America. However, to the extent that economic inequality is even something that we should be concerned about, it has not been caused by the wealthy not paying their fair share of taxes.

Wealthy Americans get to where they are financially in myriad ways. Some, having been given very little to start with, have worked extraordinarily hard to build businesses that go on to be highly successful. Some were born with skills that they then leveraged in various ways to generate lucrative returns. Some experienced various types of advantages, such as inheriting a family business or receiving startup capital from a wealthy family member when it otherwise would have been difficult or impossible to get it from a bank. And yes, some even owe their wealth primarily to being in the right place at the right time, or to being outright lucky by catching onto some trend or fad at just the right time. With so many different wealth creation stories and so many different levels of moral praiseworthiness that one could assign—high, low, and everything in between—why should we attempt to remedy a socio-ethical concern such as inequality by looking to the tax code?

Former Senator Phil Gramm and John Early, formerly of the Bureau of Labor Statistics, have argued that "America's putative income inequality narrows dramatically when analysts count taxes and all transfer payments, and the American tax system is the most progressive in the world."[24] Income inequality might not be as urgent a problem as many say—but even if it is, the income tax is already highly progressive. As Gramm and Early write in a separate opinion piece in the Wall Street Journal:

> *"To be sure, the average household in the top 1% retains almost 18 times as much income after taxes and transfer payments as the average bottom-quintile household. But it pays more than 219 times as much in taxes. Even at the very top of the income distribution, the average household in the top 0.1% has more than 31 times as much income as the average bottom-quintile household, but pays almost 482 times as much in total taxes."*[25]

To the extent that wealth inequality is a concern, proponents ought to look elsewhere for policy levers, not to attempting to heighten the tax burden that wealthy Americans already carry.

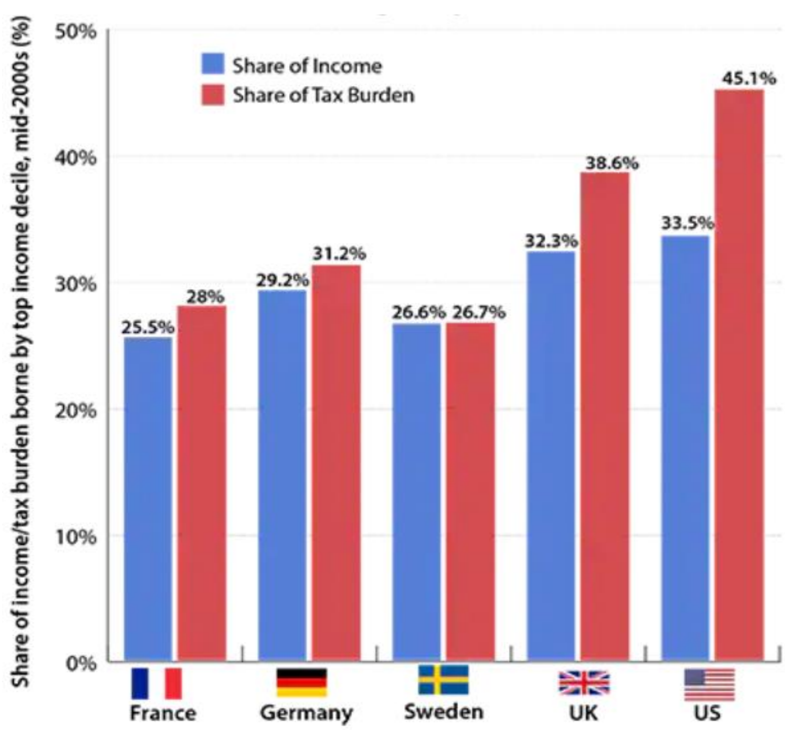
[24] Gramm, Phil, and John Early. "Wealthy Americans Already Pay Their Share" *Wall Street Journal*. Feb. 25, 2020.
[25] Ibid.

5. Compared to other countries, taxes on wealthy Americans are already unfairly high.

To help us evaluate whether wealthy Americans already pay their fair share of taxes, we can look to other countries. If many other countries have income taxes that are more progressive than that of the U.S., then perhaps wealthy Americans are not paying their fair share. However, when we look at the numbers, that is not what we actually see.

According to data from an often-cited 2008 study by the Organization for Economic Cooperation and Development (OECD), the U.S. has the most progressive income tax system in the world. In the U.S., the top 10% of earners pay 45% of all income taxes, compared to only 28% in France and 27% in Sweden—two countries that are commonly held up as exemplars of the communitarian approach to taxation.[26] See Figure 2. The study also notes the U.S. stands out as "achieving greater redistribution through the tax system than through cash transfers."

Figure 2. Income and Taxes for the Top 10 Percent, by Country



Source: Growing Unequal? Income Distribution and Poverty in OECD Countries"
Organization for Economic Cooperation and Development. (2008) p112.

[26] "Growing Unequal? Income Distribution and Poverty in OECD Countries" Organization for Economic Cooperation and Development. (2008) p112.

NEGATIVE ARGUMENTS

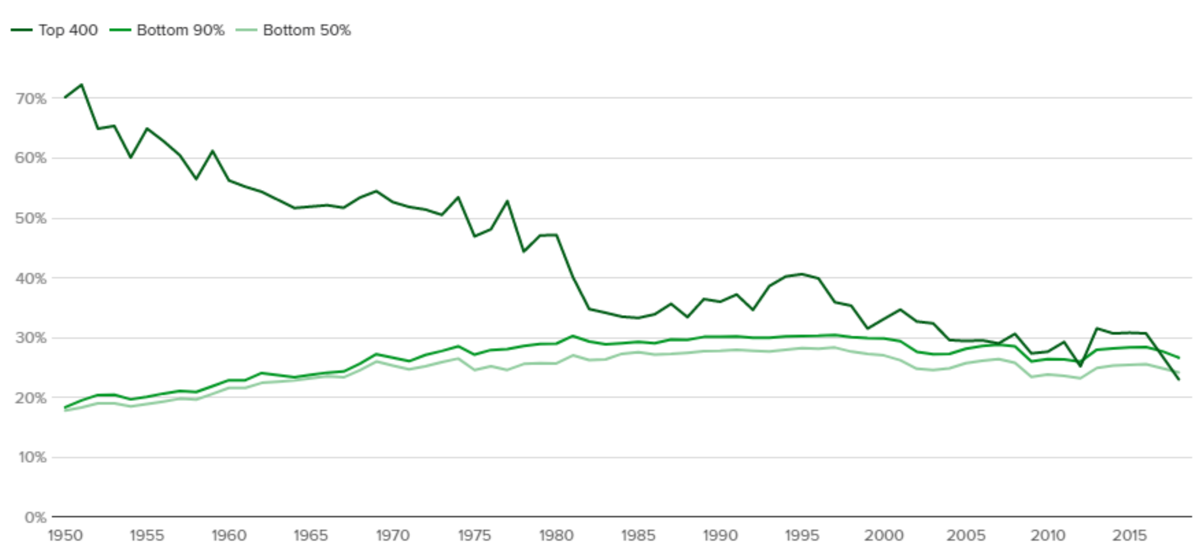
1. Wealthy Americans pay a smaller share of their income in taxes than other groups pay.

Under the current system of progressive taxation in the U.S., wealthy Americans are supposed to pay a higher tax rate on their income. However, the more money that wealthy Americans make from investments—which are taxed at lower rates than salaries and wages—the lower their effective tax rate. The result is an overall tax system that is not as progressive as some claim, and one in which wealthy Americans do not pay their fair share.

> "Factoring in all federal, state and local taxes, [the top 400 richest Americans] pay a total rate of about 23%—that compares with 24.2% for the bottom half of households, which includes many in the middle class. The richest families also pay a lower rate than those in the upper middle class and even those in the top 1%, who pay closer to 30% of their income in taxes."
>
> Source: Picchi, Aimee. "America's richest 400 families now pay a lower tax rate than the middle class" CBSNews.com. October 17, 2019

The effective tax rate is the percentage of taxes that you pay on all of your taxable income. If you make $100,000 in taxable wage income and pay $32,000 in wage taxes, then your effective tax rate is 32% ($32,000 / $100,000). But if you also made income from buying and selling stocks (capital gains), receiving payouts from the companies whose shares you hold (dividends), or from interest, then your effective tax rate could be much lower because these additional sources of income are typically taxed at a lower tax rate than regular wage income.

Figure 3. Effective Tax Rates By Income

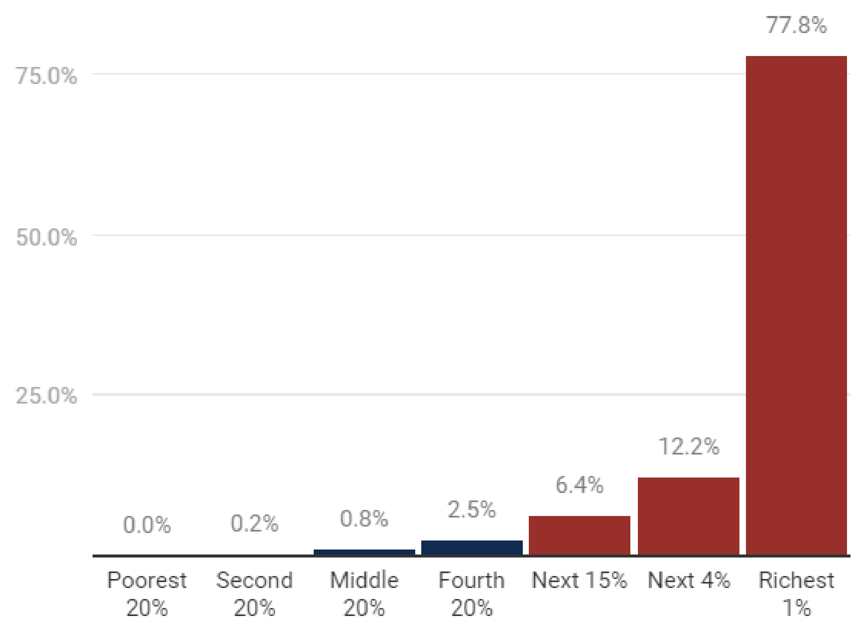


Source: Saez, Emmanuel, and Gabriel Zucman. *The Triumph of Injustice*. WWNorton. (2020)

To get an accurate estimate of how much wealthy Americans pay in taxes, one must include unearned income such as income from capital gains, stock dividends, and interest. Figure 3 shows that the effective tax rate for wealthy Americans can fall quite a bit.

For most people, their investment income is a small portion of their overall income in a year, so the effective tax rate for those people only falls a little bit when you factor in the additional income taxed at a lower tax rate. In other words, most people get a relatively small benefit from the fact that investments are taxed at a lower rate. However, a subset of Americans make most of their annual income through investments, and they tend to be wealthy.[27] For these people, the benefits of how the current tax system works are substantial. See Figure 4.

Figure 4. Distribution of Benefits from Lower Tax Rates for Capital Gains and Stock Dividends By Group, 2020



Source: Institute on Taxation and Economic Policy. March 2, 2020.

Since the benefits of the current system go mostly to wealthy Americans, we can say that wealthy Americans do not pay their fair share and that higher taxes on the rich are justified. Some top earners even agree with this assessment. For instance, investor Warren Buffet—one of the wealthiest individuals in the United States—famously advocates for a minimum tax on top wage earners to counteract the way in which capital gains are taxed at a lower rate than regular earnings. This proposal is aptly known as "The Buffet Rule."

[27] Wamhoff, Steve. "The Latest Wildly Misleading Argument Against Taxing the Rich" Institute on Taxation and Economic Policy. March 2, 2020.

2. Fairness consists of asking more from those who can afford to pay, not penalizing those who cannot afford to pay.

A commonly held moral intuition in the U.S. is that people's tax burdens should generally reflect their ability to pay.[28] If by certain measures wealthy Americans do already pay more than other Americans pay, it is because they can afford to do so. We cannot fund the public roads, schools, courts, the military, and other tax-funded institutions and services on the backs of working-class and middle-class Americans alone. We need wealthy Americans to contribute, and because there are fewer of them, we need them to contribute at a substantially higher rate than the rest of us.

> "What do we mean when we talk about rich Americans? There are the well-off: About 9% of the households in the U.S. have income greater than $200,000, and they get almost 45% of all pre-tax income, according to the Tax Policy Center. And then there are the really rich: the top 0.4% of households—about 700,000 in all—have incomes above $1 million a year and get 13% of all pre-tax income. Since the 1980s, those at the very top have enjoyed faster growing incomes than the rest of the America."
>
> Source: Wessel, David. "Who are the rich and how might we tax them more?" Brookings Institution. October 15, 2019.

Low-income households spend about 82 percent of their budgets on basic needs such as housing, healthcare, food, and transportation. Middle-income households spend about 78 percent of their budgets on these needs. High-income households spend only about 67 percent.[29]

In other words, after their basic needs are met, low-income and middle-income households have relatively little money to save or spend on purely discretionary items, whereas affluent households have much more money to put toward savings and discretionary spending.[30] These higher-income households could afford to devote a little more of this money to taxes.

3. Increasing taxes on wealthy Americans would help the economy and strengthen society.

Governments need tax revenue to do things such as provide affordable healthcare coverage, lend money to college students, and improve infrastructure. These functions not only help the direct recipients—such as the individuals who obtain health insurance, the student who is able to go to college, or the members of the public who safely drive over a well-maintained bridge—they also spur the economy. Particularly in the case of transfer payments, which redistribute tax revenue to poor recipients, taxing wealthy Americans stimulates economic growth.

---

[28] Blask, Ari. "Book Review: Taxing the Rich" *Cato Journal*. Winter 2018.
[29] Schanzenbach and Nunn, "Where Does All the Money Go: Shifts in Household Spending Over the Past 30 Years" The Hamilton Project. June 2, 2016.
[30] Uradu, Lea. "Is a Progressive Tax More Fair Than a Flat Tax?" Investopedia. January 31, 2021.

There is relatively little downside to taxing wealthy Americans because the money they would pay in increased taxes come out of their discretionary wealth, much of which is saved and not spent. For instance, as tax and finance journalist Andrew Vitelli writes, "President Clinton raised the top marginal income tax rate from 31 to 39.6 percent and saw GDP growth top 4 percent every year in his second term. Meanwhile, President George W. Bush's tax cuts were supposed to accelerate growth but, instead, they led to unimpressive growth and eventually recession."[31]

Nobel Prize-winning economist Joseph Stiglitz and coauthors also argue that wealthy Americans do not pay their fair share of taxes, and that the favorable treatment they receive hurts the economy by perpetuating inequality. In a 2020 Foreign Affairs article, they write:

> *"This spiraling inequality is bad for the economy. For starters, inequality weakens demand: the bulk of the population has less money to spend, and the rich don't tend to direct their new income gains to the purchase of goods and services from the rest of the economy; instead, they hoard their wealth in offshore tax havens or in pricey art that sits in storage bins. Economic growth slows because less money overall is spent in the economy."*[32]

How much could increasing taxes on the wealthy help? Working from numbers used by the Tax Policy Center (a joint project of the Urban Institute and the Brookings Institution), the *New York Times* estimates that increasing the total tax burden for the top 1% of earners to 40 percent would result in about $157 billion in revenue per year. Increasing the burden to 45 percent would result in about $276 billion. Either one of these changes would more than pay for the estimated $47 billion cost of providing free tuition at all four-year public colleges.[33]

At the state level, tax fairness advocates in Massachusetts have introduced a bill called the Fair Share Amendment that would place an additional tax of four percentage points on income above $1 million. They argue that "new revenue is necessary to improve our public schools and pre-K programs; rebuild crumbling roads, bridges, sidewalks, and bike paths; make high-quality public higher education affordable; and invest in fast and reliable public transportation." Raising new tax revenue in this way would make possible a fairer, more robust post-pandemic recovery that allows the state to reach its full economic potential.[34]

> "The new revenue, approximately $2 billion a year, would be spent on quality public education and affordable public colleges and universities, and for the repair and maintenance of roads, bridges and public transportation."
>
> Source: "Fair Share Amendment" Raise Up Massachusetts. Accessed June 13, 2021.

[31] Vitelli, Andrew. "Should we raise taxes on the rich?" The Perspective. (2021)
[32] Stiglitz, Tucker, and Zucman. "The Starving State: Why Capitalism's Salvation Depends on Taxation" *Foreign Affairs*. January/February 2020.
[33] Cohen, Patricia. "What Could Raising Taxes on the 1% Do? Surprising Amounts" *New York Times*. Oct. 16, 2015.
[34] "Fair Share Amendment" Raise Up Massachusetts. Accessed June 13, 2021.

4. The inequality that we observe in the U.S. is in part due to wealthy Americans not paying their fair share of taxes.

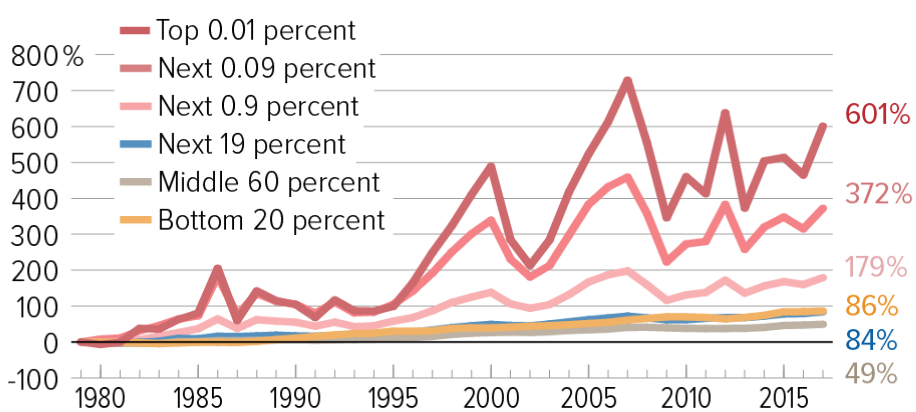
> "[E]conomic inequality has worsened significantly in the United States and some other countries. The richest 1 percent in the United States now own more wealth than the bottom 90 percent."
>
> Source: Kristof, N. "An Idiot's Guide to Inequality" *New York Times*. July 22, 2014.

The past few decades have been good to our nation's wealthiest households. The technological revolution, Silicon Valley, hedge-funds, low interest rates, and a booming stock market have created millionaires and billionaires at an unprecedented rate. Various tax cuts along the way, such as the Tax Cuts and Jobs Act signed into law by President Trump in 2017 along with multiple Bush-era tax cuts in 2001 and 2003, and even some tax cuts enacted by the Obama administration, also helped wealthy Americans accumulate more wealth. The overall result, as Nobel Prize-winning economist Joseph Stiglitz and his coauthors write, is that:

> *"In the United States, the share of wealth owned by the richest one percent of the adult population has exploded, from 22 percent in the late 1970s to 37 percent in 2018. Conversely, over the same period, the wealth share of the bottom 90 percent of adults declined from 40 percent to 27 percent. Since 1980, what the bottom 90 percent has lost, the top one percent has gained."*[35]

Policymakers cannot and should not *prevent* entrepreneurs from creating new businesses and financiers from profiting by their investments just to address inequality, but they can and should make changes to the tax structure to more fairly share the burden of paying for the country's needs once that wealth is created.

Figure 5. Percent Change in Income After Transfers and Taxes Since 1979



Source: Marr, et al. Center on Budget and Policy Priorities. April 22, 2021.

[35] Stiglitz, Tucker, and Zucman. "The Starving State: Why Capitalism's Salvation Depends on Taxation" Foreign Affairs. January/February 2020.

Figure 5 above shows how income gains among the wealthiest households have far outpaced income gains among less affluent households over the past four decades. The share of the nation's total household income going to the top 1 percent of households rose from 7.4 percent in 1979 to 13.5 percent in 2017. Meanwhile, the share going to the bottom 80 percent over the same period fell from 58.6 to 53.0 percent.[36]

As French economist and author Thomas Piketty wrote in his best-selling book Capital in the Twenty-First Century, "perceptions of inequality, redistribution, and national identity changed a great deal over the course of the twentieth century."[37] Income and wealth inequality is on the rise, yet the portion of the total tax obligation that wealthiest Americans pay has stayed roughly the same.[38] It is time for policymakers to bring the tax code into line with what is happening in the economy and adjust rates so that wealthy Americans pay their fair share.

5. Compared to historic tax rates, current tax rates for the highest earners are unfairly low.

A final way to examine whether wealthy Americans already pay their fair share of taxes is to look at historical precedents here in the United States. If today's top tax rate is the highest it has ever been in the U.S., then perhaps wealthy Americans are already paying as much as they can possibly pay. However, that is not the case. Instead, we see in the historical data that there were many years in which the top federal income tax rate was much higher than it is today. If wealthy Americans managed to get through those years without calamity, then we ought to be able to consider returning to those higher tax rates.

For most of the history of the federal income tax, the top marginal rate has been higher than it is today. The top rates occurred in the decade after World War II. Rates fell moderately but still remained relatively high all the way through the early 1980s. Commentators have noted that top federal tax rates in recent years have been less than half the 91 percent it was under President Eisenhower, who was a Republican.[39] Only in a few brief periods such as Coolidge's years and the years of George H.W. Bush, were the top federal rates consistently lower than they are today. (See Figure 6 below and Appendix D.)

> "In the 1950s and 1960s, when the economy was booming, the wealthiest Americans paid a top income tax rate of 91%. Today, the top rate is 43.4%."
>
> Source: Marcum, Anthony. "Supreme Court term limits would increase political tensions around justices, not ease them" LegBranch.com. October 15, 2020.

[36] Marr, et al. "Asking Wealthiest Households to Pay Fairer Amount in Tax Would Help Fund a More Equitable Recovery" Center on Budget and Policy Priorities. April 22, 2021.
[37] Piketty, Thomas. *Capital in the Twenty-First Century*. (2014) p349
[38] Lord, Bob, and Chuck Collins. "No, The Rich Are Not Paying Their Fair Share" Inequality.org. March 17, 2021.
[39] Vitelli, Andrew. "Should we raise taxes on the rich?" The Perspective. (2021)

Figure 6. Top Federal Income Tax Rates, 1913-2021

Source: "[History of Federal Income Tax Rates: 1913-2021]" Bradford Tax Institute. Accessed June 15, 2021

APPENDIX A. Average Family Income

The Federal Reserve conducts a Survey of Consumer Finances (SCF) that collects information about family income. During the three years between 2016 and 2019, real gross domestic product grew at an annual rate of 2.5 percent, median family income rose 5 percent, and mean family income decreased 3 percent. These changes suggest that the income distribution became slightly narrower over the period. Most of the decrease in mean income came from the fall in income among families at the highest end of the income distribution.

Before-Tax Median and Mean Family Income, By Selected Characteristics of Families (2016 and 2019)

Family characteristic	Median income			Mean income		
	2016	2019	Percentage change 2016–19	2016	2019	Percentage change 2016–19
All families	**56.0** (.7)	**58.6** (1.0)	**5**	**109.3** (2.1)	**106.5** (1.7)	**-3**
Percentile of usual income						
Less than 20	17.2	17.7	3	18.2	18.0	-1
20–39.9	35.2	36.7	4	36.4	37.3	2
40–59.9	57.5	59.1	3	58.3	59.9	3
60–79.9	91.6	94.9	4	100.1	96.8	-3
80–89.9	144.0	150.4	4	148.3	152.9	3
90–100	267.6	283.0	6	518.6	487.6	-6
Age of reference person (years)						
Less than 35	43.1	48.6	13	60.0	65.1	9
35–44	70.0	74.3	6	103.3	111.0	7
45–54	73.9	77.8	5	139.8	145.3	4
55–64	64.9	63.6	-2	150.3	130.6	-13
65–74	53.3	50.2	-6	113.4	107.8	-5
75 or more	42.6	43.1	1	82.0	74.9	-9
Education of reference person						
No high school diploma	28.2	30.8	9	41.3	39.6	-4
High school diploma	43.1	45.8	6	60.9	63.8	5
Some college	50.8	51.2	1	71.7	79.0	10
College degree	98.0	95.7	-2	201.8	176.5	-13

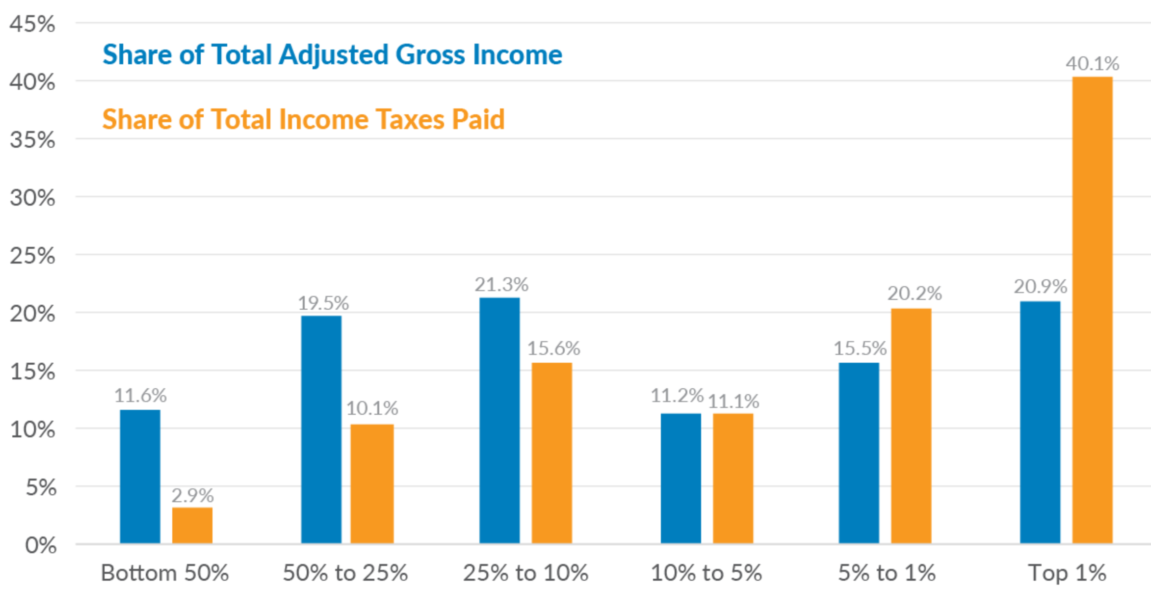
Note: Thousands of 2019 dollars, except as noted

Source: "Changes in U.S. Family Finances from 2016 to 2019" Federal Reserve Bulletin, September 2020, 106:5

APPENDIX B. Tax Burden By Income Group

Federal income taxes in the U.S. were first enacted in the 1860s during the Civil War and then again in the 1890s in a relatively limited way. In 1913, Congress passed the 16th Amendment, establishing the power to impose a more broadly applicable federal income tax. Since then, the tax code has become increasingly complex and progressive. Under the progressive tax system in the U.S., households pay a larger percentage of their income the more they earn. Today, half of American taxpayers pay 97 percent of federal income taxes.

Share of Adjusted Gross Income
and federal income taxes paid by income group in 2018



Source: IRS, Statistics of Income, Individual Income Rates and Tax Shares; Hodge, Scott. "Testimony: Senate Budget Committee Hearing on the Progressivity of the U.S. Tax Code" Tax Foundation. March 25, 2021.

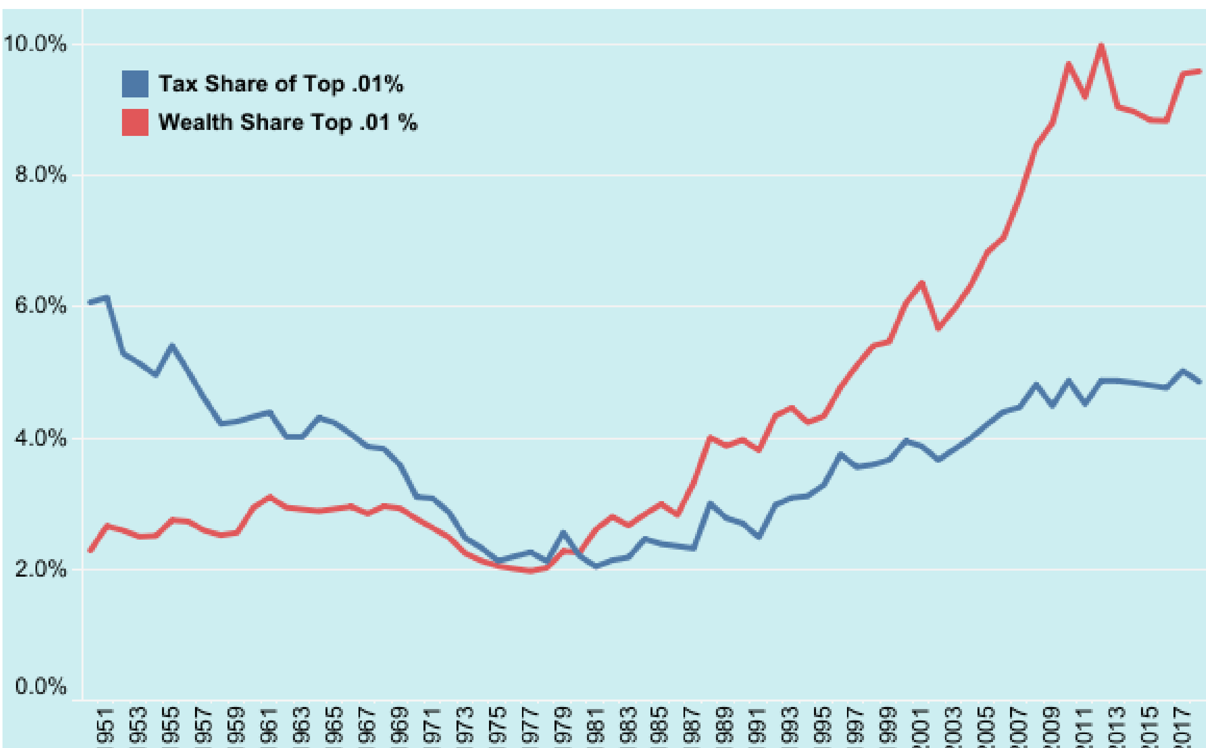
APPENDIX C. What Very Wealthy Americans Pay

One of the pertinent questions in this issue is the question of what constitutes a wealthy American. Some would say anyone earning "six figures" (i.e., >$100,000) is wealthy. Others use the top 1 percent as a threshold, which requires an annual income of about $538,000. An even more exclusive group is the top 0.01 percent, i.e., a household that is wealthier than 9,999 out of every 10,000 households. Membership in this group requires an annual income of more than $8 million.

The graph below shows how the tax share and wealth share of this most exclusive group (the top 0.01 percent) has changed over the years. Proponents of more progressive taxation point out that since the 1980s, the share of the wealth has outpaced the tax share, and argue that this is evidence that wealthy Americans are not paying their fair share.

Tax Share and Wealth Share of Top 0.01% of Earners, 1950-2018

Share of total U.S. taxes paid by top 0.01% versus share of total wealth owned by top 0.01%.



Source: IPS analysis of Saez, Zucman (2019) data; reported in Lord and Collins, Inequality.org (2021).

APPENDIX D. Historical Top Federal Income Tax Rates

The table below shows the top federal income tax rates in the U.S. for each year since 1913.

Year	Top Marginal Rate	Year	Top Marginal Rate	Year	Top Marginal Rate	Year	Top Marginal Rate
1913	7.00%	1948	82.13%	1983	50.00%	2018	37.00%
1914	7.00%	1949	82.13%	1984	50.00%	2019	37.00%
1915	7.00%	1950	84.36%	1985	50.00%	2020	37.00%
1916	15.00%	1951	91.00%	1986	50.00%		
1917	67.00%	1952	92.00%	1987	38.50%		
1918	77.00%	1953	92.00%	1988	28.00%		
1919	73.00%	1954	91.00%	1989	28.00%		
1920	73.00%	1955	91.00%	1990	28.00%		
1921	73.00%	1956	91.00%	1991	31.00%		
1922	58.00%	1957	91.00%	1992	31.00%		
1923	43.50%	1958	91.00%	1993	39.60%		
1924	46.00%	1959	91.00%	1994	39.60%		
1925	25.00%	1960	91.00%	1995	39.60%		
1926	25.00%	1961	91.00%	1996	39.60%		
1927	25.00%	1962	91.00%	1997	39.60%		
1928	25.00%	1963	91.00%	1998	39.60%		
1929	24.00%	1964	77.00%	1999	39.60%		
1930	25.00%	1965	70.00%	2000	39.60%		
1931	25.00%	1966	70.00%	2001	39.10%		
1932	63.00%	1967	70.00%	2002	38.60%		
1933	63.00%	1968	75.25%	2003	35.00%		
1934	63.00%	1969	77.00%	2004	35.00%		
1935	63.00%	1970	71.75%	2005	35.00%		
1936	79.00%	1971	70.00%	2006	35.00%		
1937	79.00%	1972	70.00%	2007	35.00%		
1938	79.00%	1973	70.00%	2008	35.00%		
1939	79.00%	1974	70.00%	2009	35.00%		
1940	81.10%	1975	70.00%	2010	35.00%		
1941	81.00%	1976	70.00%	2011	35.00%		
1942	88.00%	1977	70.00%	2012	35.00%		
1943	88.00%	1978	70.00%	2013	39.60%		
1944	94.00%	1979	70.00%	2014	39.60%		
1945	94.00%	1980	70.00%	2015	39.60%		
1946	86.45%	1981	69.13%	2016	39.60%		
1947	86.45%	1982	50.00%	2017	39.60%		

Notes: This table contains a number of simplifications and ignores a number of factors, such as the amount of income or types of income subject to the top rates, or the value of standard and itemized deductions.
Sources: IRS Revenue Procedures, various years. Also, Eugene Steuerle, The Urban Institute; Joseph Pechman, *Federal Tax Policy*; Joint Committee on Taxation, Summary of Conference Agreement on the Jobs and Growth Tax Relief Reconciliation Act of 2003, JCX-54-03, May 22, 2003.

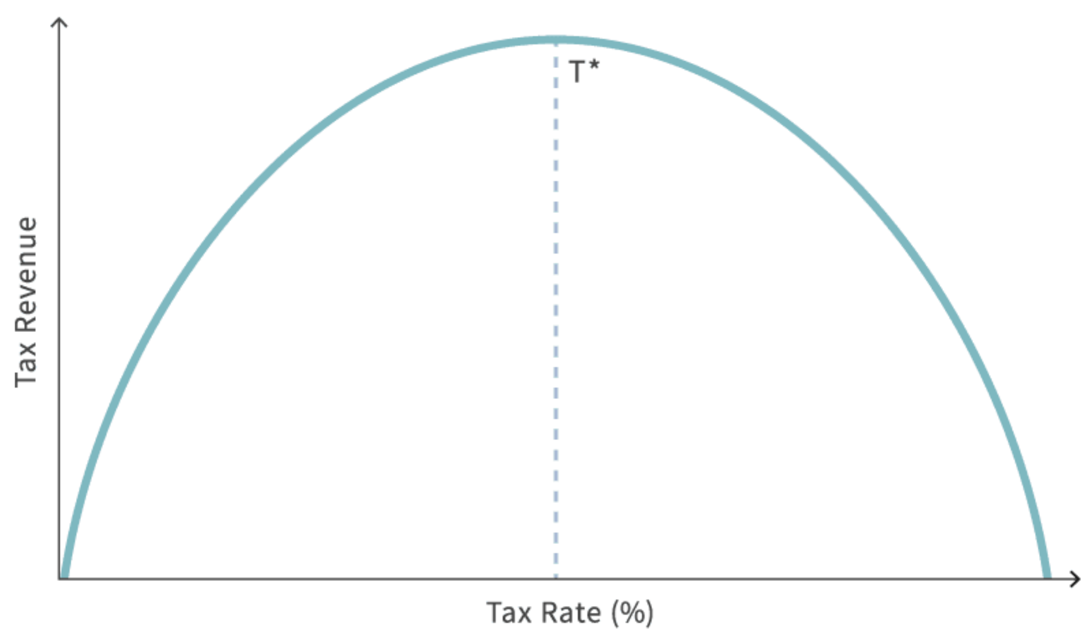
Source: Historical Highest Marginal Income Tax Rates. Tax Policy Center. February 4, 2020.

APPENDIX E. The Laffer Curve

The Laffer Curve illustrates a relationship between rates of taxation and the resulting levels of the government's tax revenue that suggests that at, as the rate of taxation rises, there is a point at which the government begins to collect *less* overall tax revenue, not more. The reason, theorized by Art Laffer and other supply-side economists in the 1970s and 1980s, is that individuals change their behavior in response to the disincentive of increased taxation, causing less taxable economic activity to occur.

The implication of the Laffer Curve for tax policy is that higher taxes may be counterproductive, and conversely, that lower taxes may actually increase overall tax revenue.

The Laffer Curve



Source: [Laffer Curve](). Investopedia. Updated May 19, 2021.