

Econ 101 Hill Briefing: *The Promise of Equitable & Pro-Growth Tax Reform*

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Tax 101

September 27: Contours of current U.S. tax policy

Today: Most persuasive, evidence-backed arguments for how the tax code affects economic growth

...More TBA

Overall Objective: You leave with the knowledge and confidence you need to make sense of the tax code and advise your boss in next year's high-stakes debate.

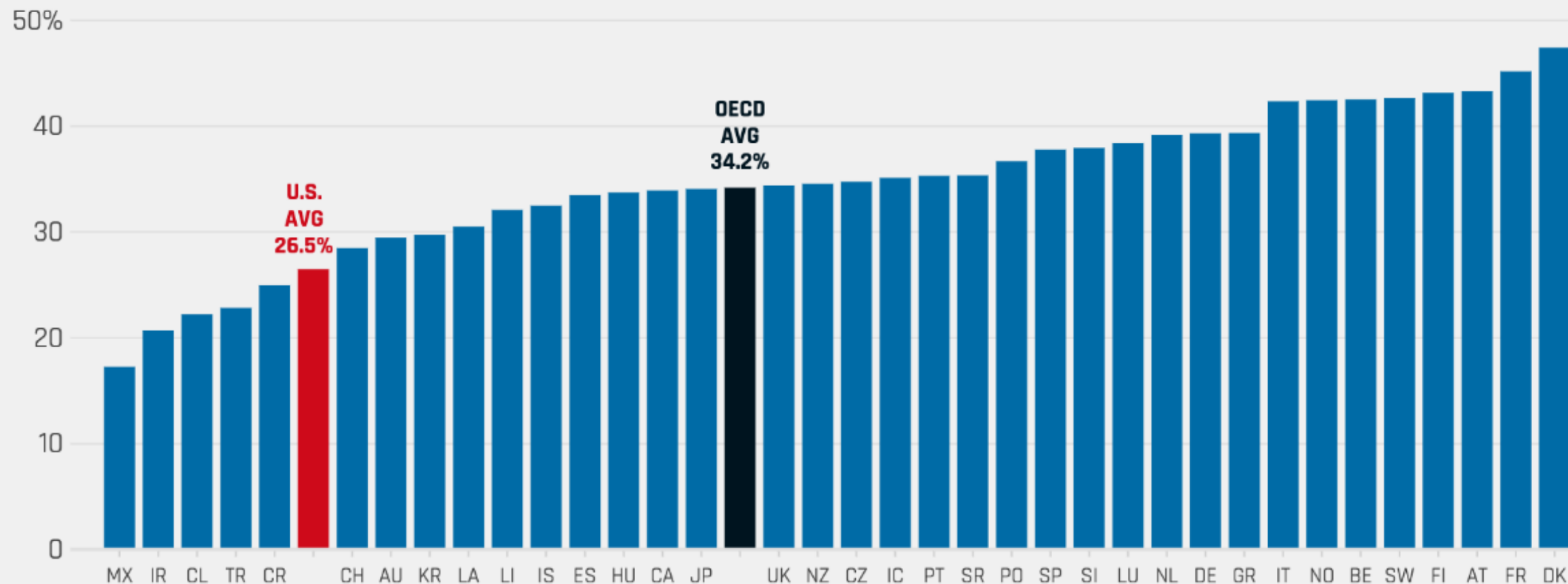
Outline for today

- Review basic tax facts
- Debunking trickle-down growth theory
- Evidence-backed growth arguments
 - Combat inequality
 - Make high-return public investments
 - Encourage competition and innovation & discourage gaming
- Illustrative policy examples
- Q&A

Basic Tax Facts

The United States is a low-tax country

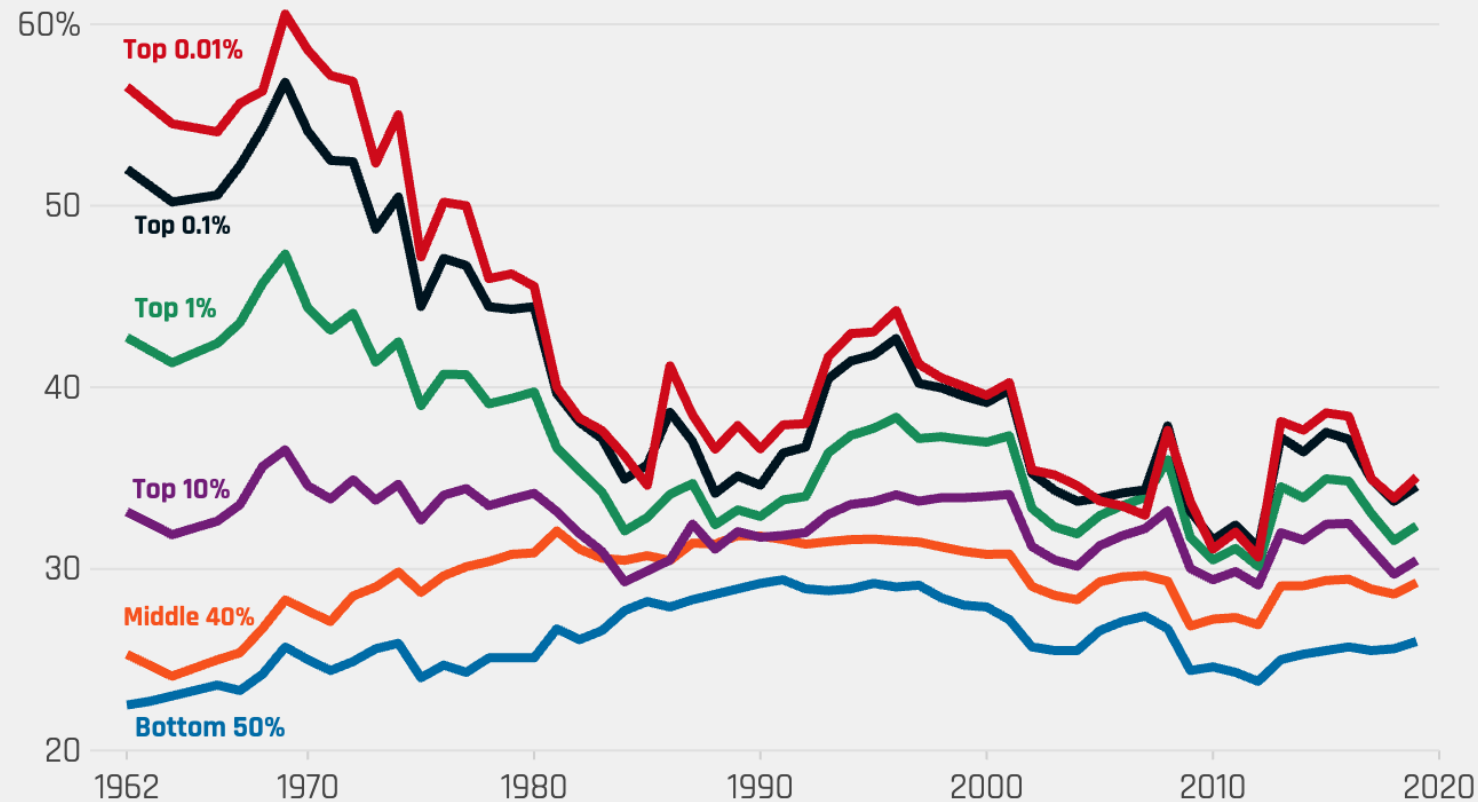
Revenue as a share of Gross Domestic Product in OECD countries, 2021



Source: Organisation for Economic Co-operation and Development, "Global Revenue Statistics Database," available at <https://www.compareyourcountry.org/tax-revenues-global/>

Taxes have become less progressive over time in the United States

Average effective tax rates as a percentage of pre-tax income, by income group, 1962-2019

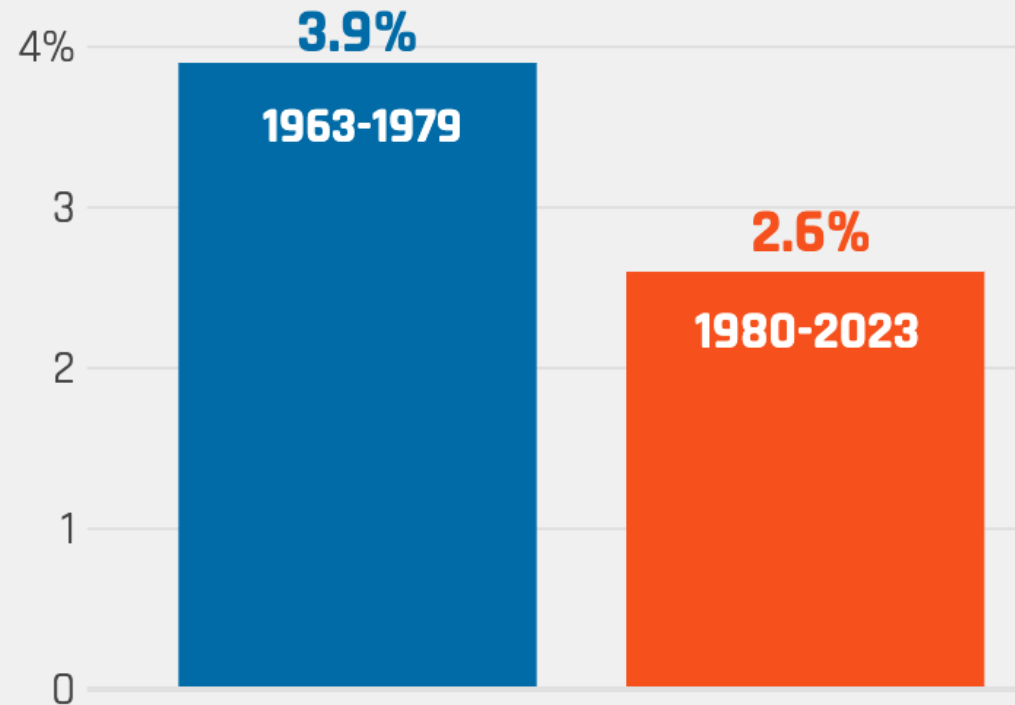


Note: To construct income groups, the unit of observation is the adult individual (aged 20 or above), and adults are ranked by their pre-tax national income, with income equally split between married spouses. All taxes at all levels of government are included in the numerator, and all pre-tax national income is included in the denominator. Pure realized capital gains (defined as realized gains in excess of 3 percent of national income) are included in pre-tax income. For reference, in 2019, the bottom 50% had an average pre-tax income of \$19,779; the middle 40% earned an average of \$74,190; the top 10% averaged \$333,011; the top 1% was \$1,390,129; the top 0.1% was \$6,205,332; the top 0.01% was \$27,680,833.

Source: Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, Data Appendix II, Table G1: "Average tax rate by pre-tax income group from Distributional National Accounts: Methods and Estimates for the United States" (2022), available at <https://gabriel-zucman.eu/usdina/>.

Growth in the United States fell as taxes fell

Average annual growth in U.S. Gross Domestic Product during a period of high taxation on corporations and the wealthy, 1963-1979, and a period of low taxation on corporations and the wealthy, 1980-2023

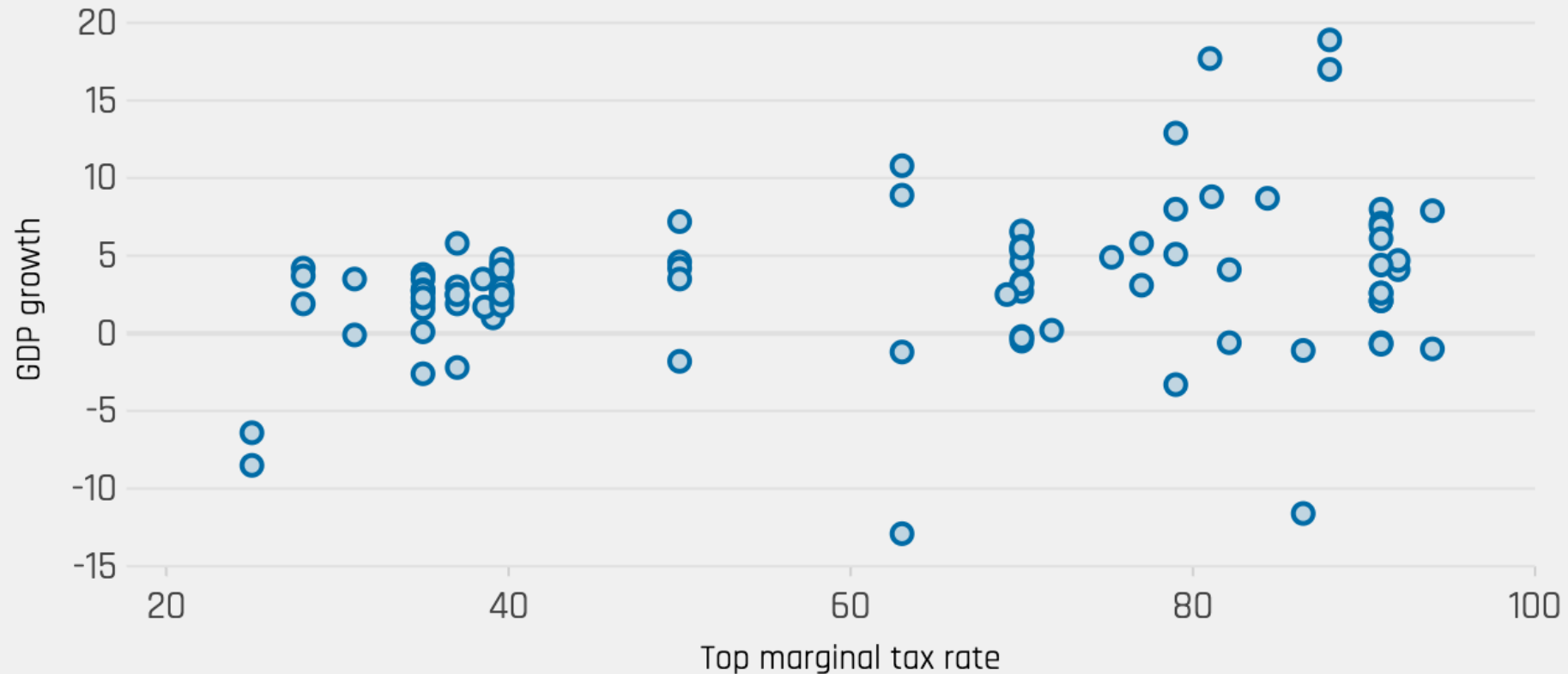


Source: Bureau of Economic Analysis, "Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product" [Washington: U.S. Department of Commerce].

Debunking Trickle Down

There is no obvious relationship between top tax rate and growth

Top U.S. marginal tax rate and U.S. GDP growth rate, 1930-2023

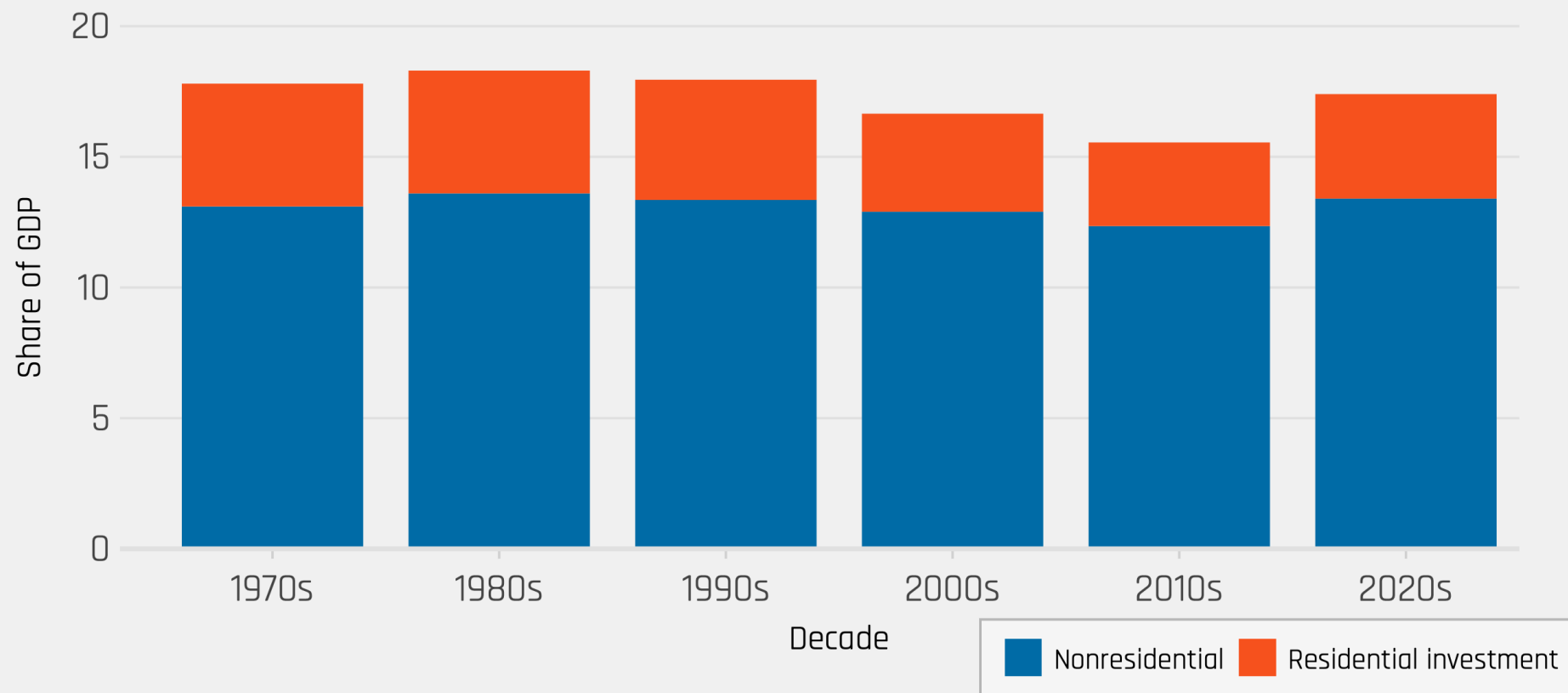


Note: Each point represents one year

Source: Authors' calculations based on Tax Policy Center, "Historical highest marginal income tax rates" [2023], available at <https://www.taxpolicycenter.org/statistics/historical-highest-marginal-income-tax-rates>; and Bureau of Economic Analysis, "Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product" [Washington: U.S. Department of Commerce].

Investment in the U.S. economy declined for most of the 21st century

Private investment as a share of U.S. Gross Domestic Product by decade, 1970s to 2020s



Source: U.S. Bureau of Economy Analysis, retrieved from FRED, the Federal Reserve Bank of St. Louis, "Shares of gross domestic product: Gross private domestic investment: Residential fixed investment & Nonresidential fixed investment" [2023], available at: <https://fred.stlouisfed.org/graph/?g=10V4Q>.
Note: Averages of annual data.

Corporate tax cut from 2017 delivered zero wage gains to vast majority of workers

Average change in annual earnings for U.S. workers at various within-firm income positions caused by 2017 corporate rate cut

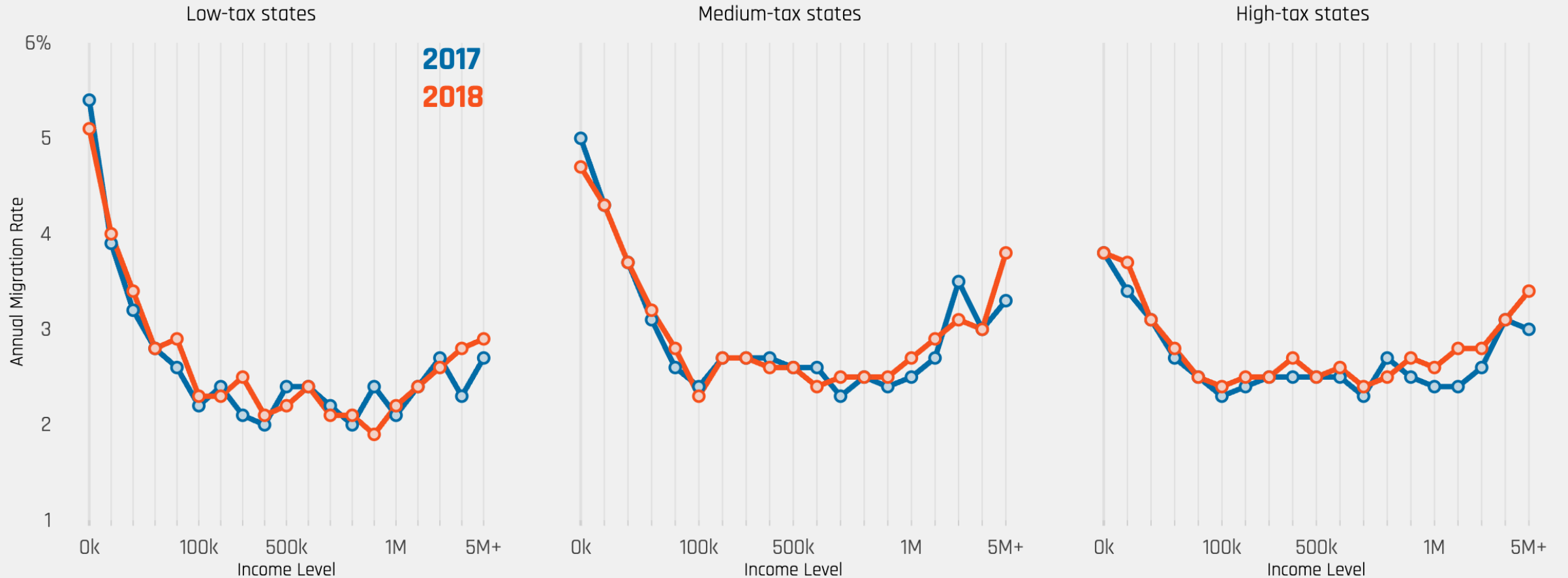


Note: Figures are rounded to the nearest hundred.

Source: Table 5, Panel A of Patrick Kennedy and others, "The Efficiency-Equity Tradeoff of the Corporate Income Tax: Evidence from the Tax Cuts and Jobs Act." Working Paper [2024].

Migration rates for millionaires were unchanged after the 2017 tax law

Annual migration rate, by income level, before and after the passage of the Tax Cuts and Jobs Act of 2017 from high-, medium-, and low-tax states



Source: Cristobal Young and Ithai Lurie, "Taxing the Rich: How Incentives and Embeddedness Shape Millionaire Tax Flight." Working Paper (Washington Center for Equitable Growth, 2022).

Real Pro-Growth Reform

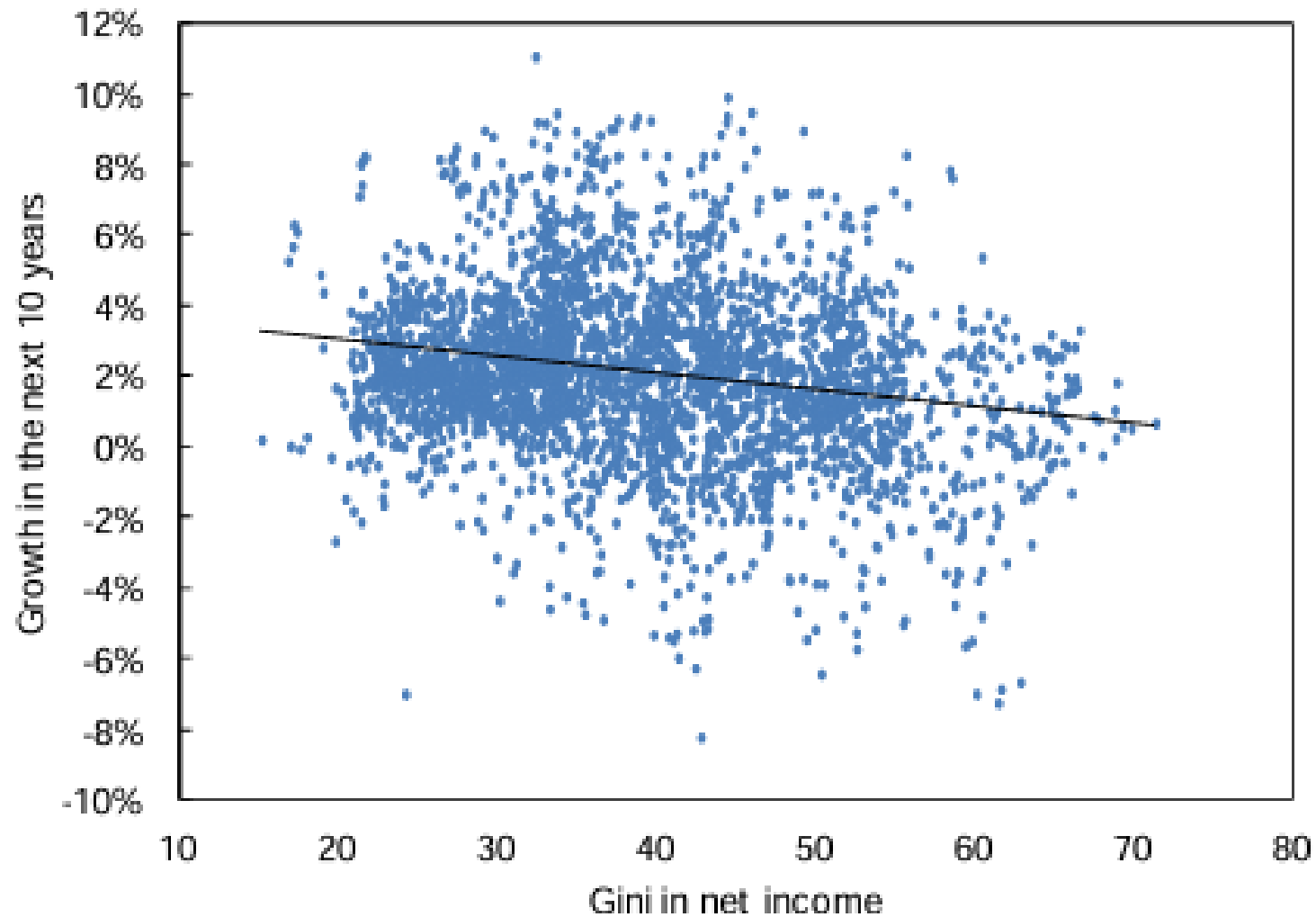
Three mechanisms:

- 1) Combat inequality
- 2) Make high-return public investments
- 3) Encourage competition and innovation & discourage gaming

Combat inequality

- Underlying economics
 - Inequality obstructs, distorts, and subverts
 - Mobility
- State of play
 - Income, wealth, race, gender
- Role of taxes
 - Types of taxes: corporate, estate, payroll
 - Preferences for capital over labor
 - Upside-down tax expenditures
 - Marginal rates at the top

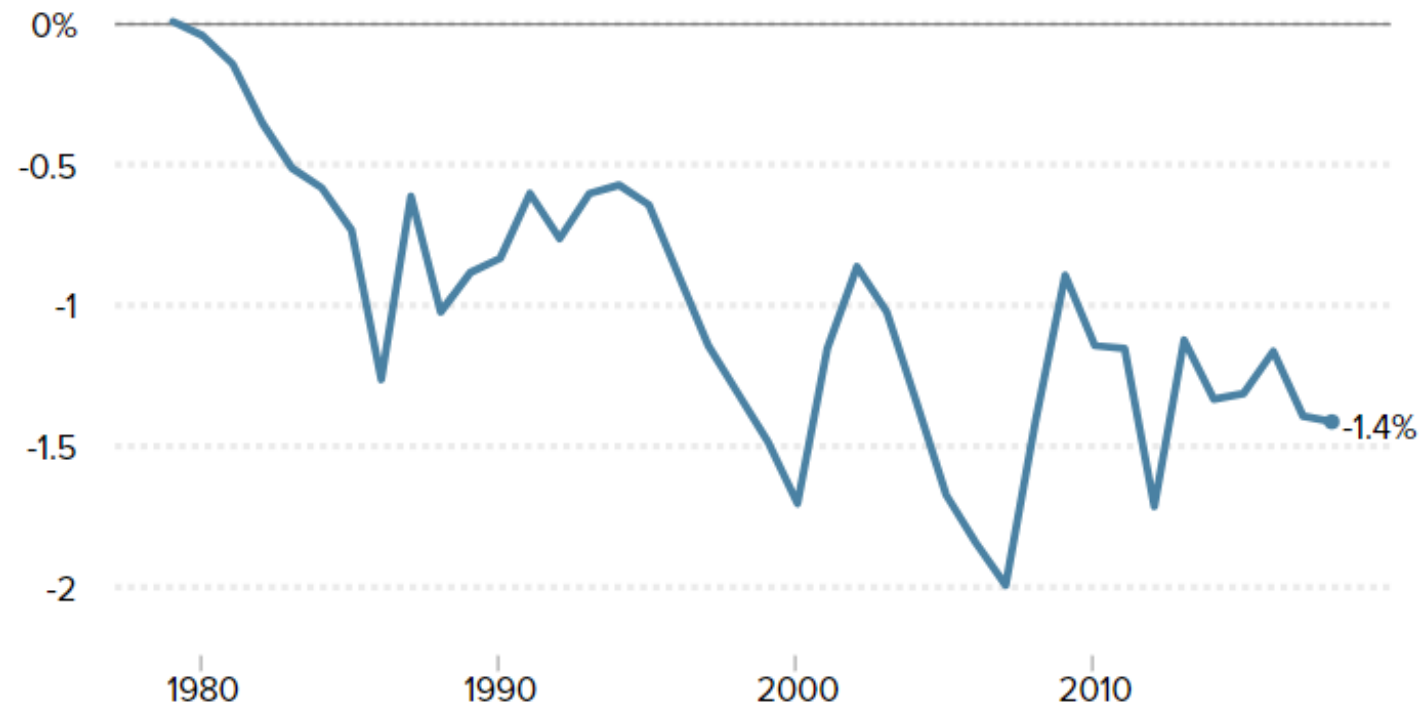
Figure 4. Growth, inequality, and redistribution



Source: Jonathan D. Ostry and others, “Redistribution, Inequality, and Growth” (Washington: International Monetary Fund Staff Discussion Note, 2014), available at <https://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf>.

Income concentration at the top has dragged on household spending since 1979

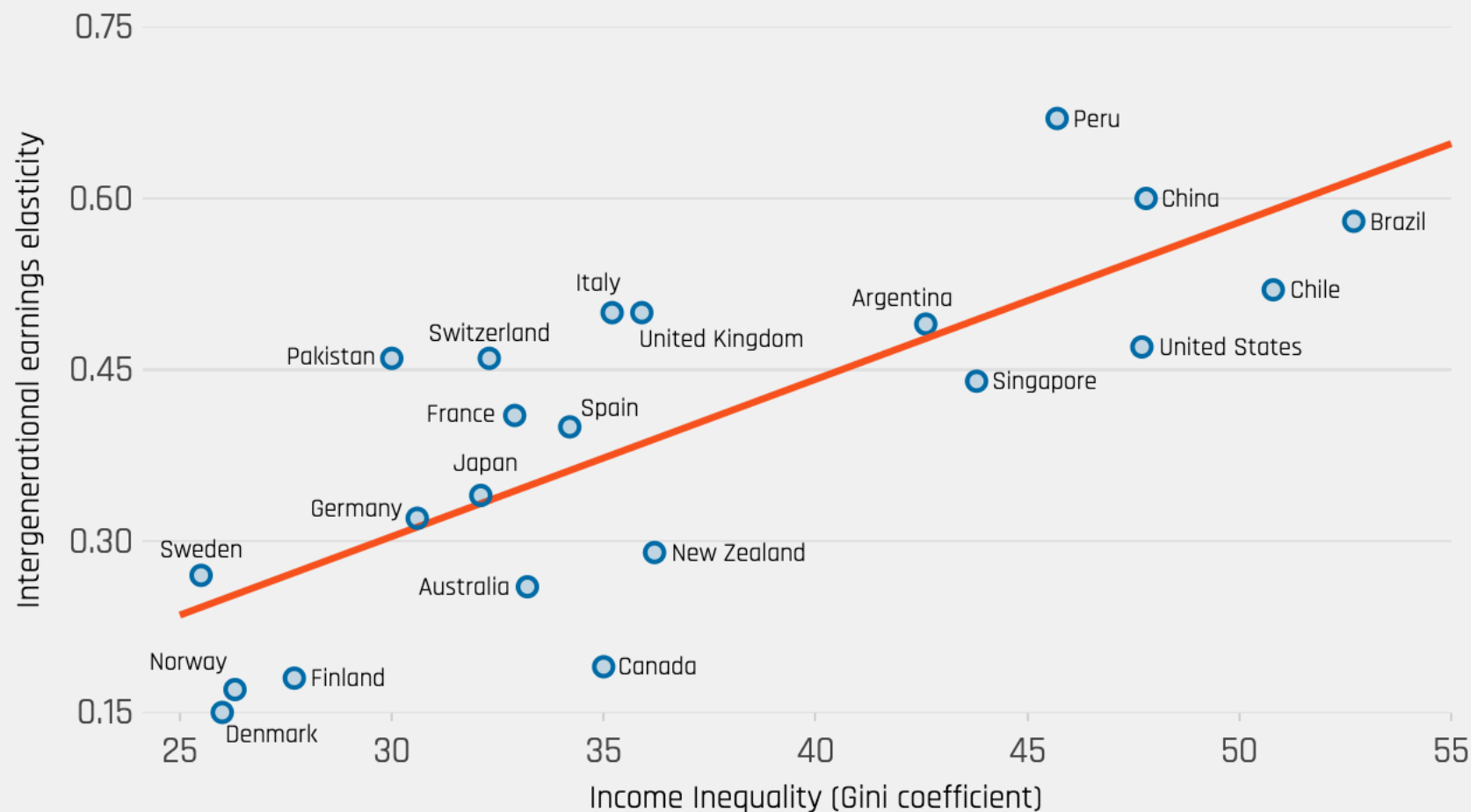
How much the upward redistribution of income lowered economywide household spending, as a share of GDP



Source: Josh Bivens & Asha Banerjee, “Inequality’s drag on aggregate demand: The macroeconomic and fiscal effects of rising income shares of the rich” (Washington: Economic Policy Institute, 2022), available at <https://www.epi.org/publication/inequalitys-drag-on-aggregate-demand/>.

The Great Gatsby Curve: high inequality tends to mean low mobility

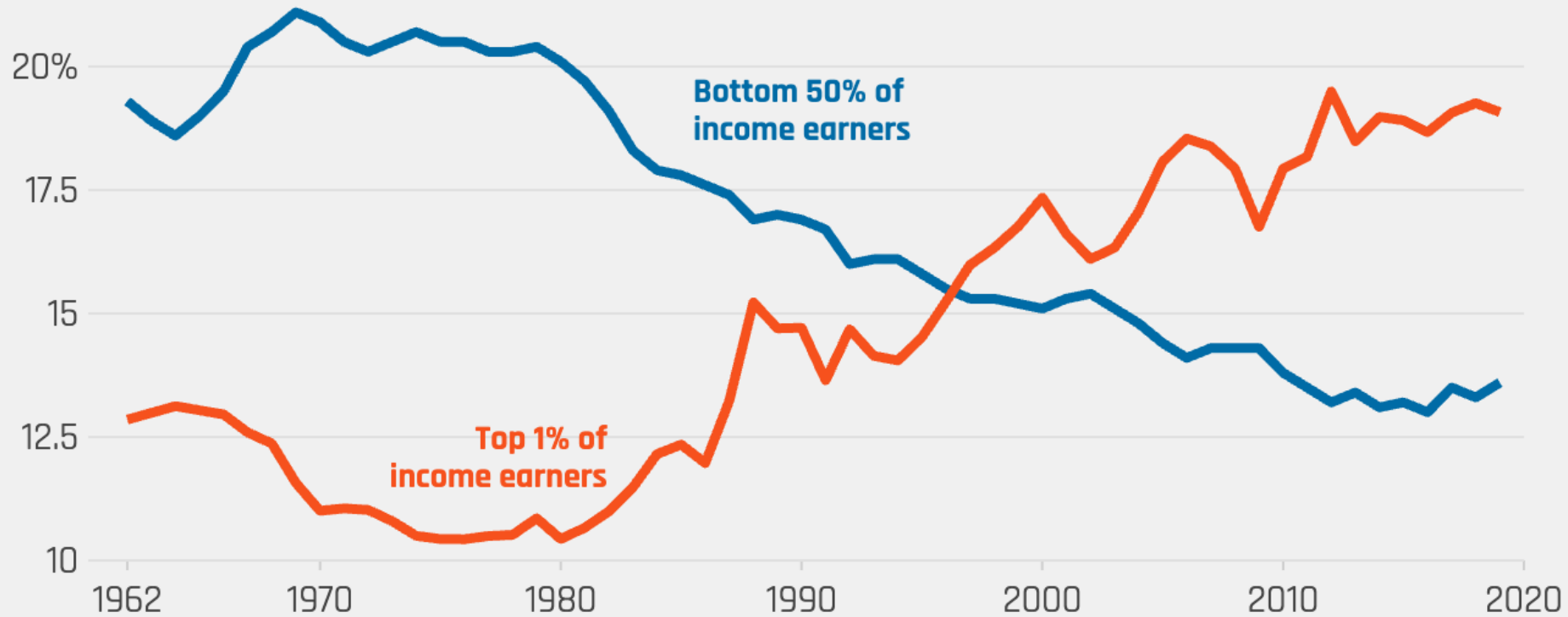
More inequality is associated with less mobility across generations



Source: Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," Journal of Economic Perspectives 27 (3): 79-102; "All the Ginis," available at <http://www.worldbank.org/en/research/brief/all-the-ginis> [last accessed 9/28/2018]

Income trend for the top 1% diverges from most Americans after 1980

Share of U.S. pre-tax income accruing to the bottom 50 percent and top 1 percent of income earners, 1962-2019

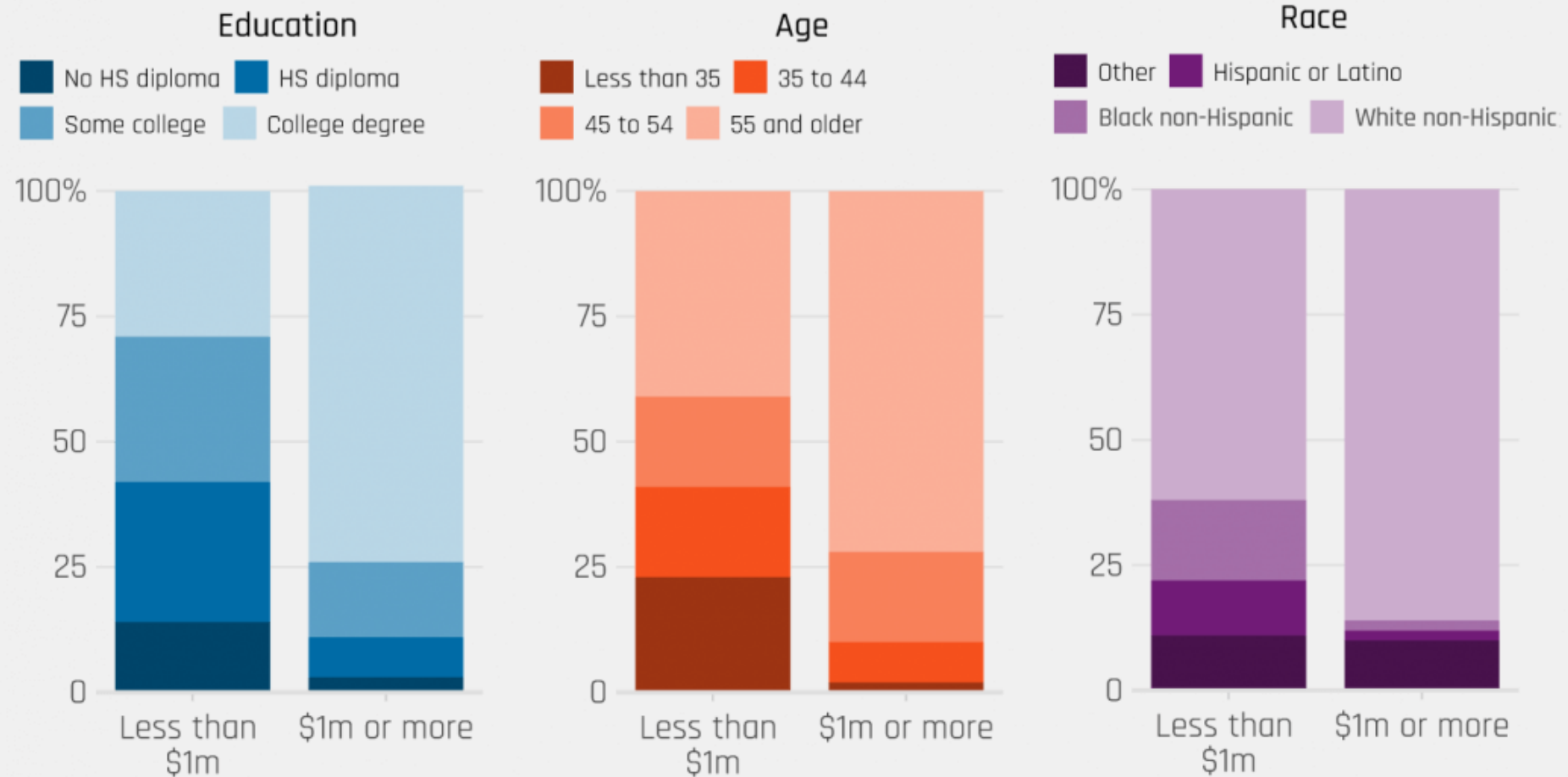


Note: To construct income groups, the unit of observation is the adult individual (aged 20 or above), and adults are ranked by their pre-tax national income, with income equally split between married spouses. Pure realized capital gains (defined as realized gains in excess of 3 percent of national income) are included in pre-tax income. For reference, in 2019, the bottom 50% had an average pre-tax income of \$19,779 and the top 1% averaged \$1,390,129 (both in 2018 dollars).

Source: Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, Data Appendix II, Table B1: "Shares of total pre-tax income from Distributional National Accounts: Methods and Estimates for the United States" (2022), available at <https://gabriel-zucman.eu/usdina/>.

Wealthy families are older and more likely to be White and have a 4-year degree

Share of U.S. families by age, race and ethnicity, and educational attainment, 2016

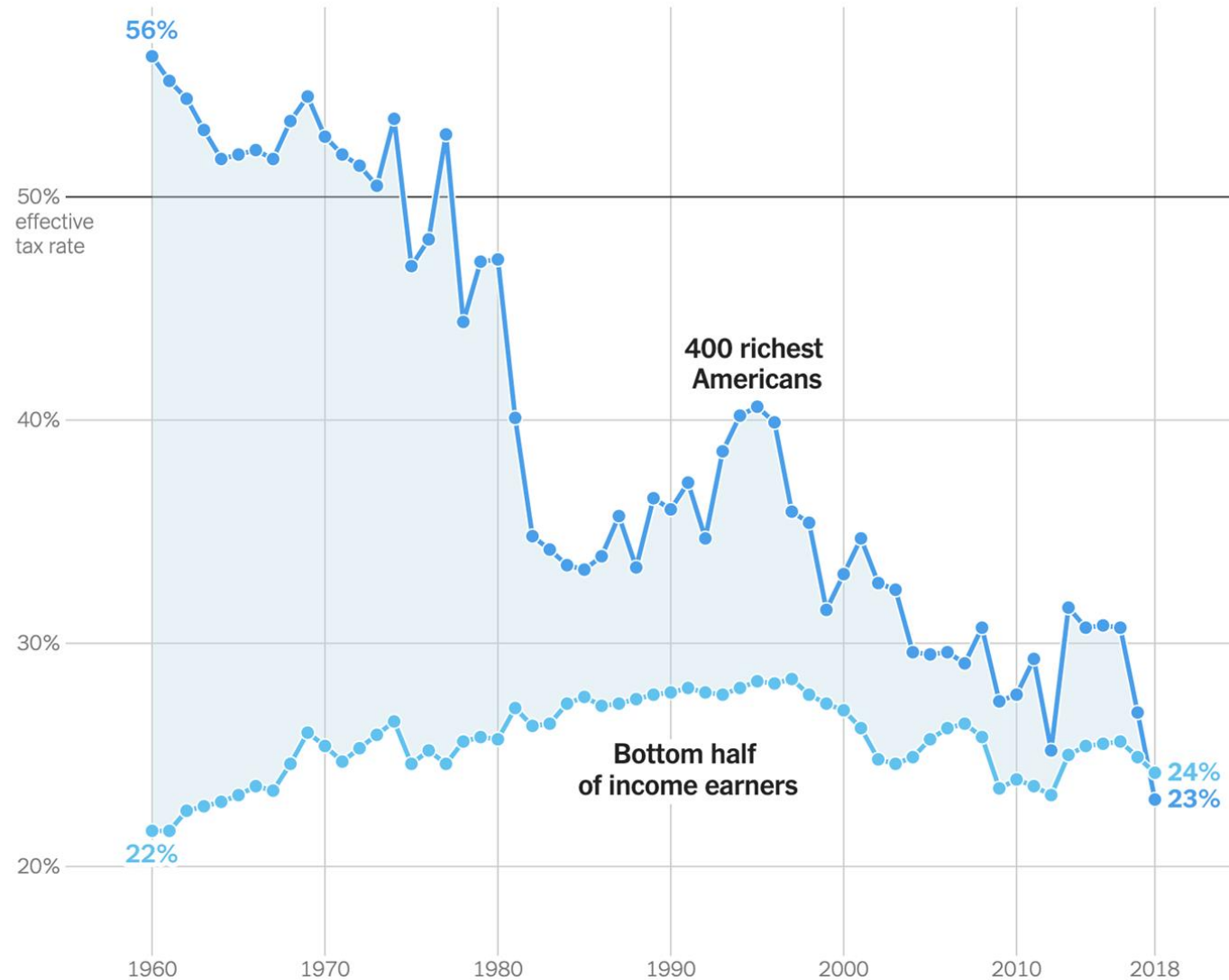


Source: Federal Reserve Board, "Survey of Consumer Finances" (2017).

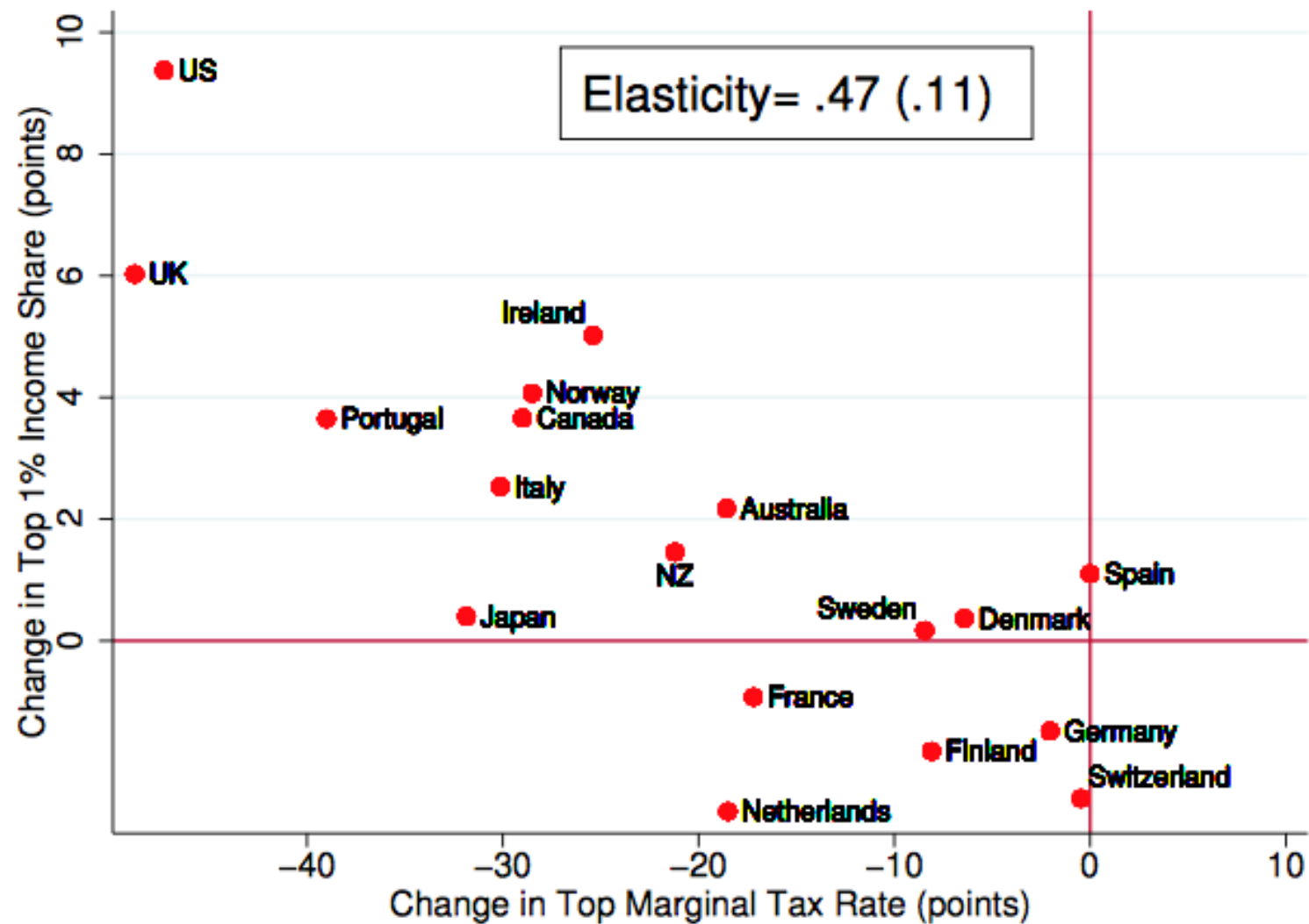
Note: Age and educational attainment classification based on household head, race/ethnicity classification based on survey respondent.

Richest 400 billionaires now pay less than most Americans

Effective tax rate, by income group



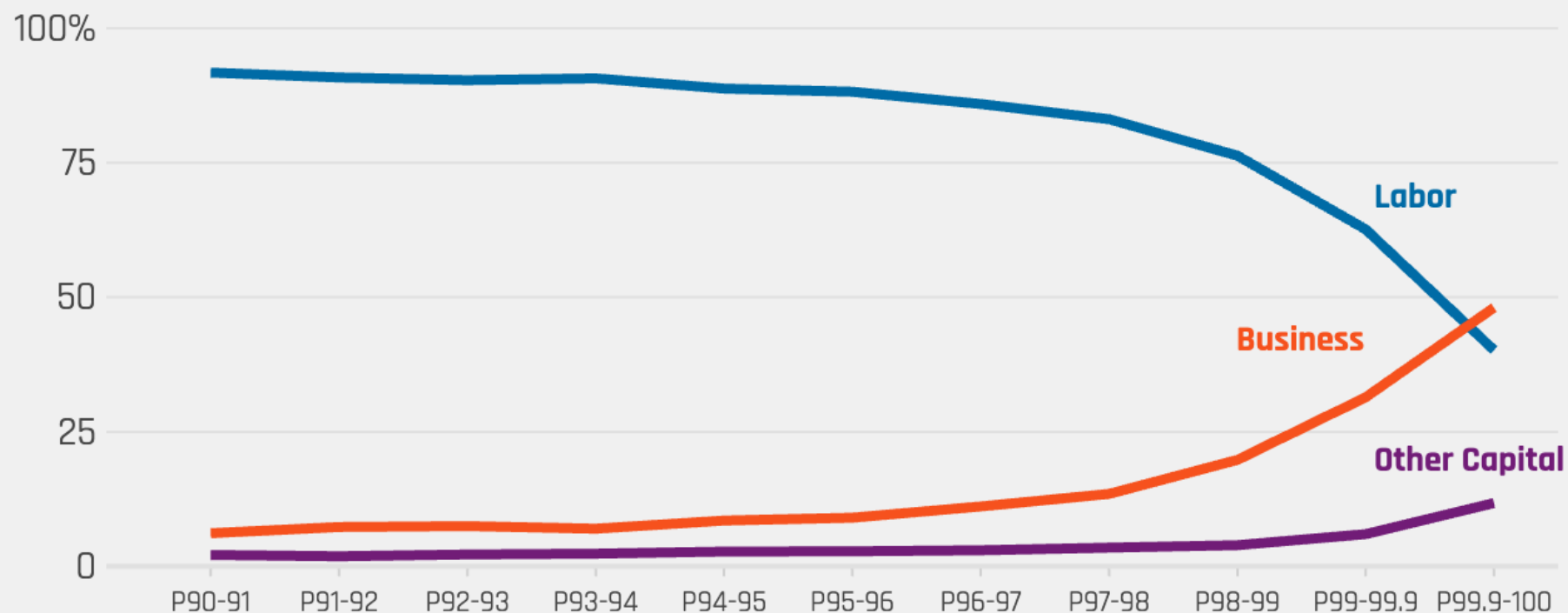
Source: Emmanuel Saez and Gabriel Zucman • Note: Tax rates shown include levies paid at all levels of government. Government transfers such as Social Security benefits have not been subtracted.



Source: Thomas Piketty and others, "Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities," *American Economic Journal: Economic Policy* 2014, 6(1): 230–271.

Business income is the largest source of income of top earners

Share of income by type of income—wages, business income, and other capital income—for the top decile of tax units in the U.S. income distribution, 2014

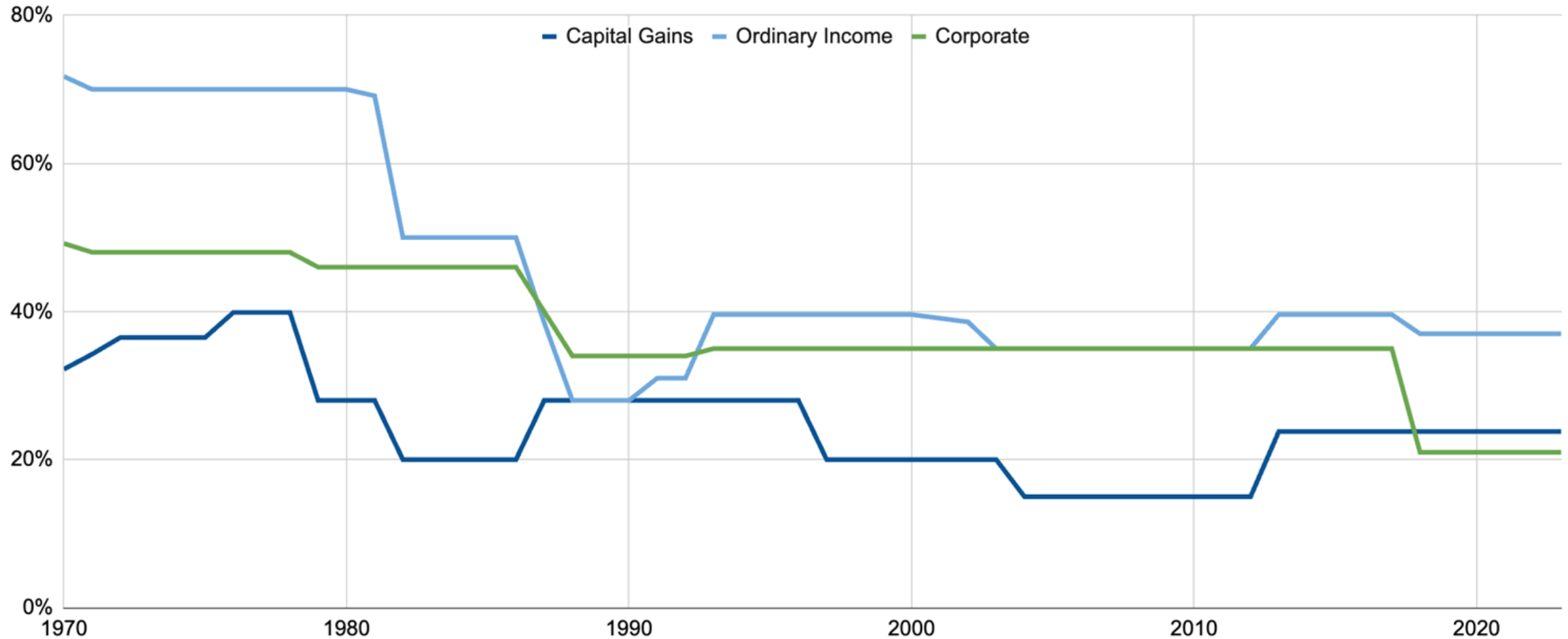


Note: Income is from directly observed tax data (i.e., fiscal income). Wages includes wages-salaries-and-tips, pension distributions, and annuities. Business income includes pass-through income (S-corporation income, partnership income, and sole proprietor's income) and C-corporation dividends. Other capital income includes all other income sources (interest, rents, royalties, and estate and trust income).

Source: Matthew Smith and others, "Capitalists in the Twenty-First Century," The Quarterly Journal of Economics 134 (4) [2019]: 1675–1745, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3340159.

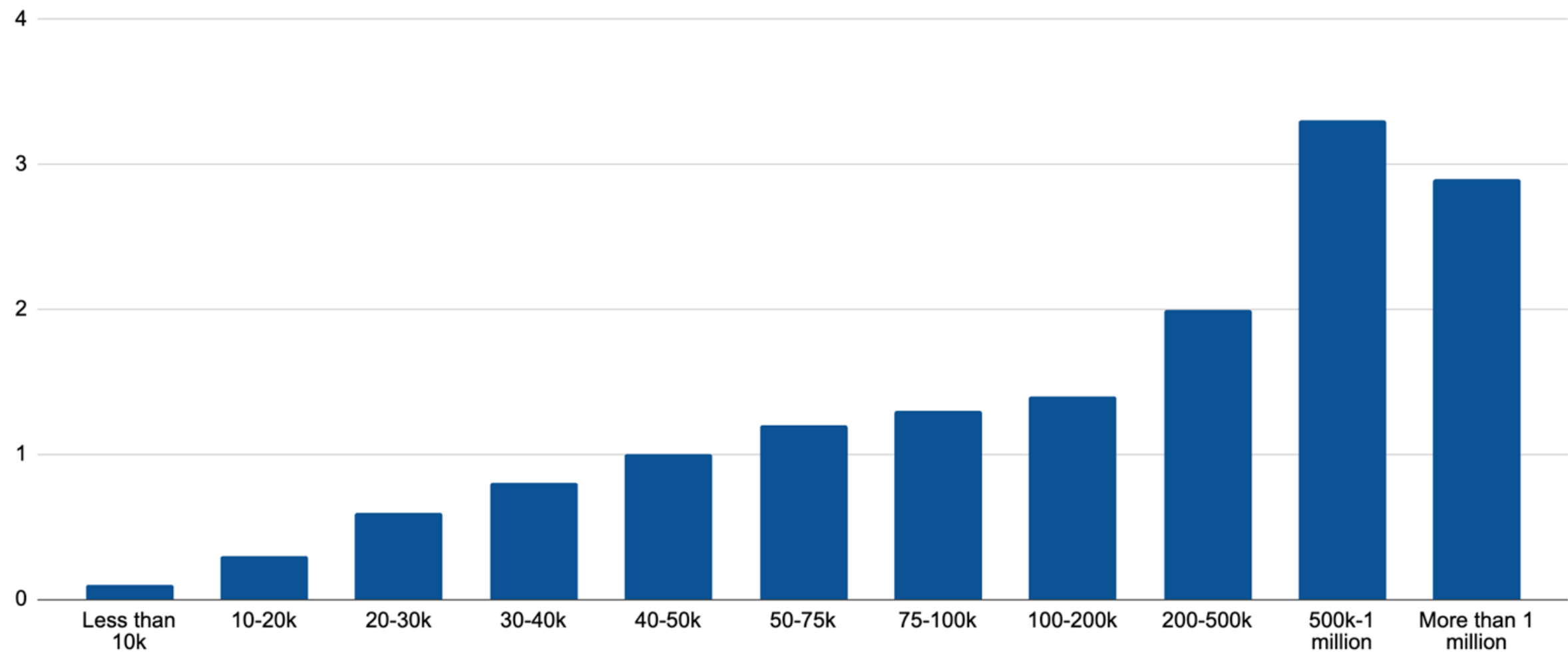
Top tax rates have been cut dramatically

The top marginal tax rate, by type of income



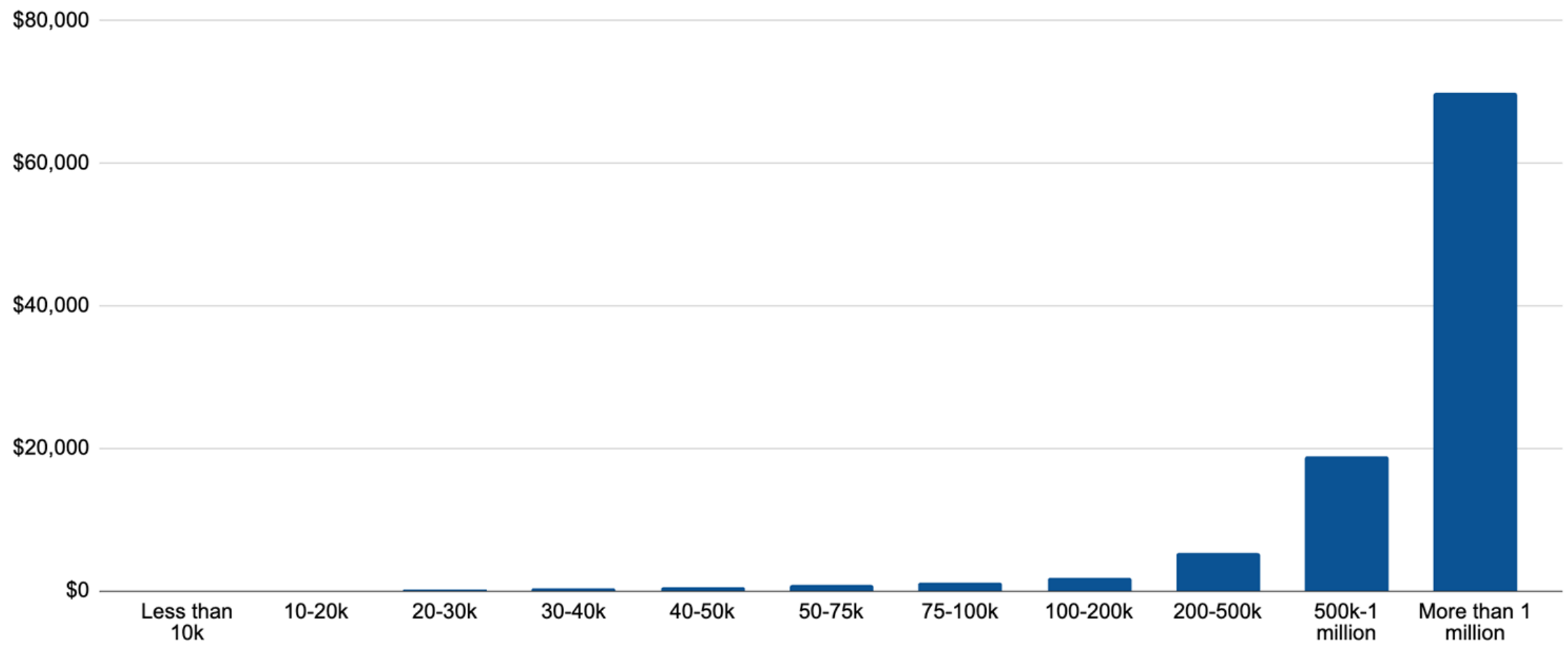
Source: Tax Policy Center

Percent change in after-tax income, by income group, from the Trump Tax Cuts, 2025



Source: Tax Policy Center

Average tax cuts, by income group, from the Trump Tax Cuts, 2025



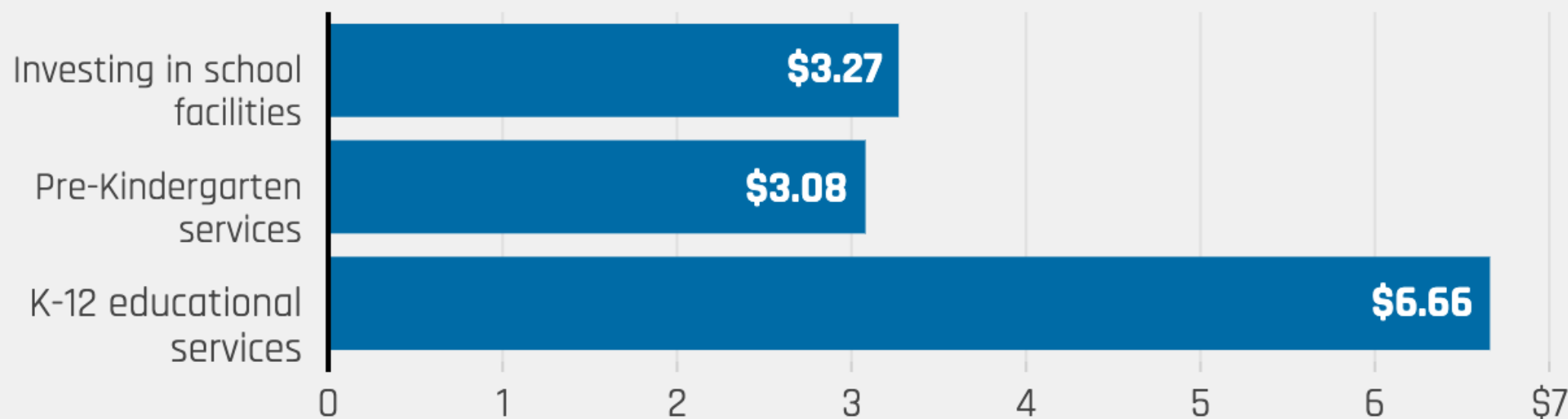
Source: Tax Policy Center

High-return public investments

- Underlying economics
 - Public investments work
 - Early childhood, physical & social infrastructure, research & development, climate
 - Crowd-in
 - Managing fiscal risk
- State of play
 - We're underinvesting and mismanaging risk
- Role of taxes
 - Raise revenue!
 - Closing the tax gap
 - Global tax deal

Public investments in U.S. education result in economic growth greater than the amount invested

Dollars of present value GDP realized for each one dollar investment in different educational programs

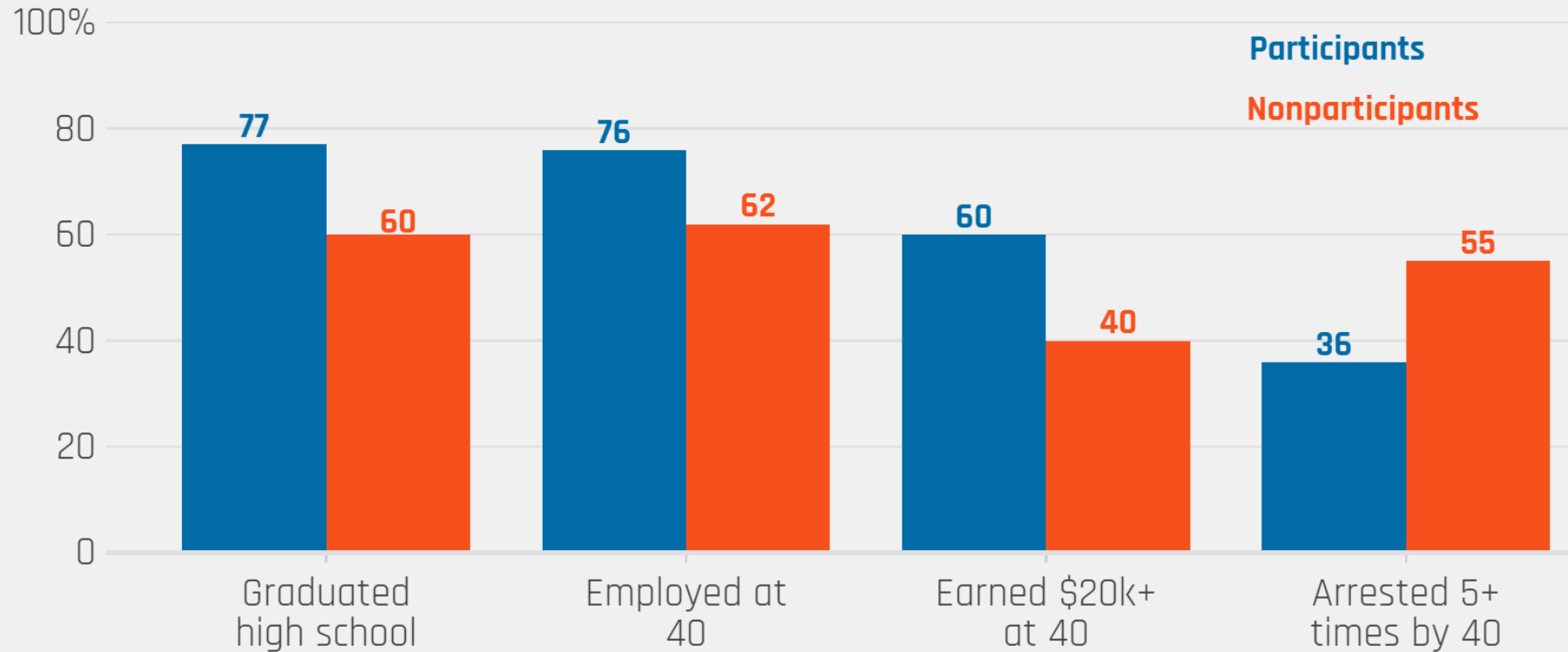


Note: Assumes a 6 percent discount rate. The school facilities project is a 12-year investment, the pre-K project is a 35-year investment, and the K-12 education services project is a 60-year investment.

Source: Robert Lynch, "Public investments in education can spur equitable growth, pay for themselves, and create jobs for a stronger economic recovery" [Washington: Washington Center for Equitable Growth, 2020], available at <https://equitablegrowth.org/research-paper/public-investments-in-education-can-spur-equitable-growth-pay-for-themselves-and-create-jobs-for-a-stronger-economic-recovery/>.

Perry Preschool participants demonstrate improved long-term outcomes, compared to their peers

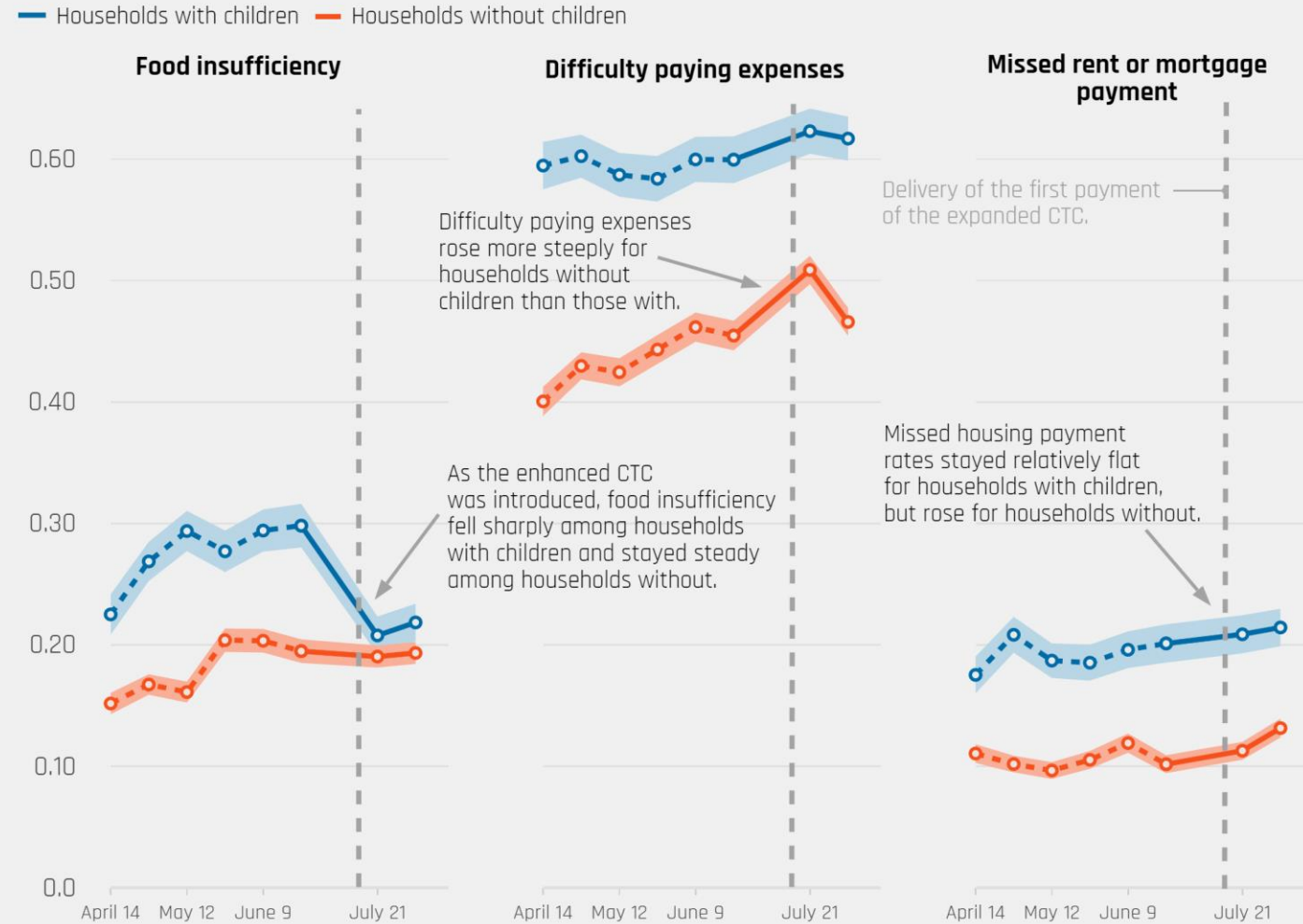
Long-term education, employment, and criminal justice outcomes for High/Scope Perry Preschool participants, compared to peers who did not attend the program



Source: Lawrence J. Schweinhart and others, "The High/Scope Perry Preschool Study Through Age 40: Summary, Conclusions, and Frequently Asked Questions" [Ypsilanti, MI: High/Scope Press, 2005], available at https://nieer.org/wp-content/uploads/2014/09/specialsummary_rev2011_02_2.pdf.

The enhanced Child Tax Credit reduced hardship among low-income households with children

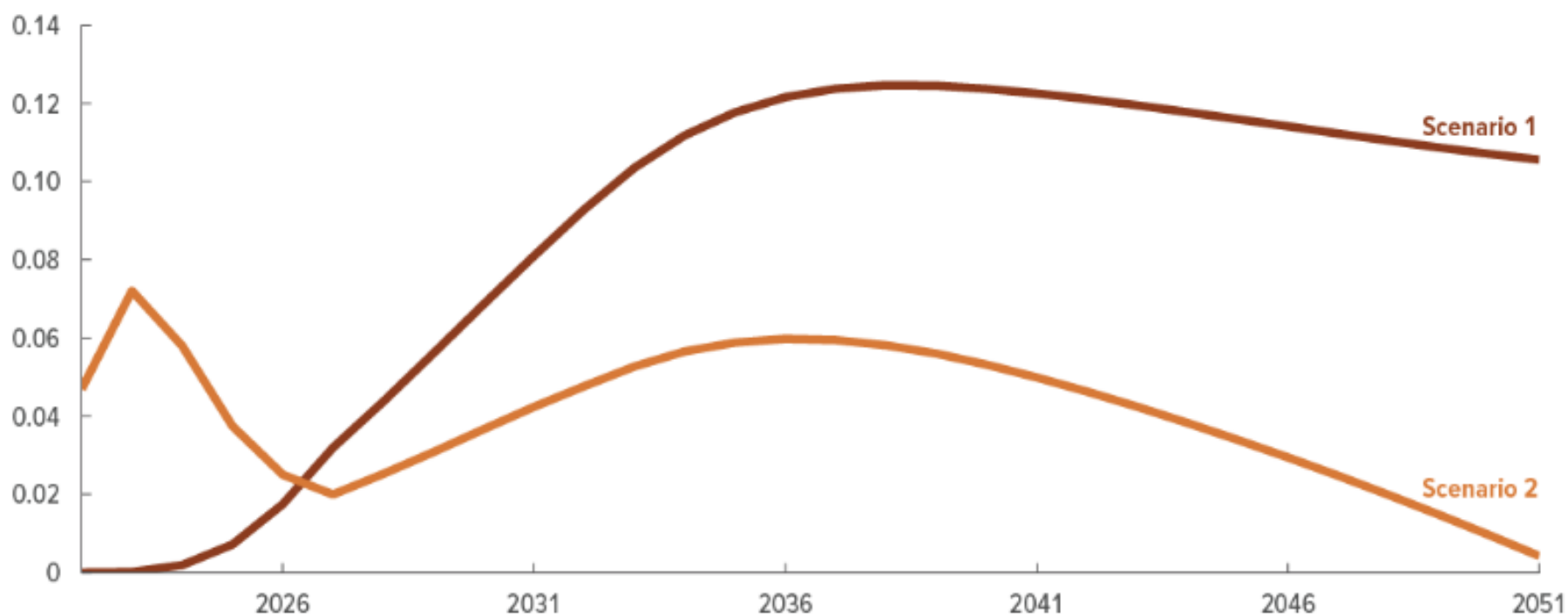
The percentage of low-income U.S. households with and without children reporting food insufficiency, difficulty with expenses, and missed mortgage payments, April 14, 2021 – August 16, 2021



Source: Zachary Parolin and others, "The Initial Effects of the Expanded Child Tax Credit on Material Hardship." Working Paper 29285 [National Bureau of Economic Research, 2021]; Zachary Parolin and others, "Monthly Poverty Rates among Children after the Expansion of the Child Tax Credit" [New York: Columbia University Center on Poverty and Social Policy, 2021].

Increases in the Level of Real GDP

Percent



Data source: Congressional Budget Office. See www.cbo.gov/publication/57327#data.

Under both scenarios, funding for physical infrastructure would increase by \$50 billion annually for 10 years. Under Scenario 1, the resulting increase in outlays would be fully offset by a reduction in the government's noninvestment purchases; under Scenario 2, it would be financed by increased borrowing.

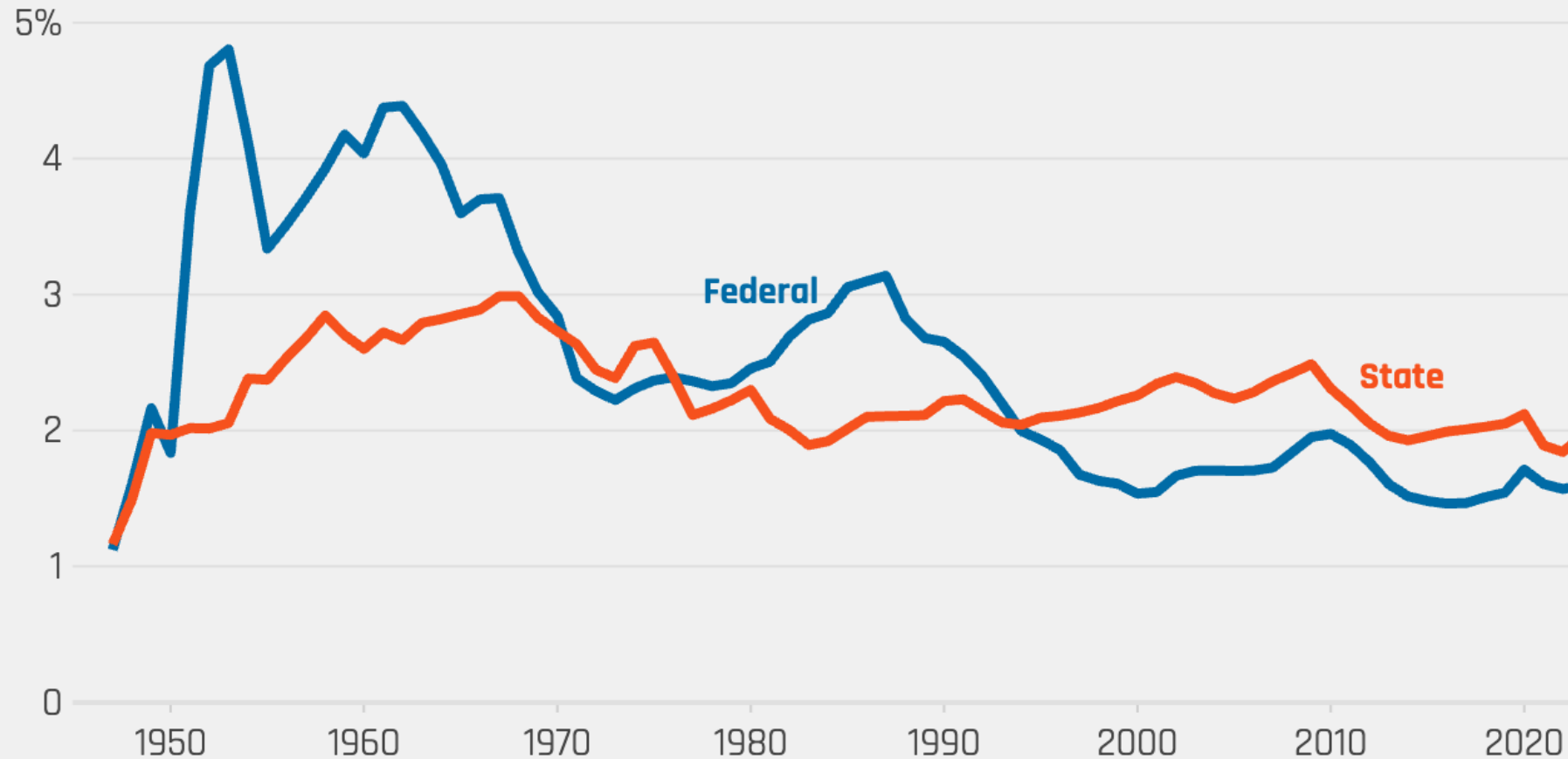
Effects are estimated relative to CBO's July 2021 economic projections.

Real GDP is gross domestic product adjusted to remove the effects of inflation.

Years are calendar years.

Public investment is near historic lows in the United States

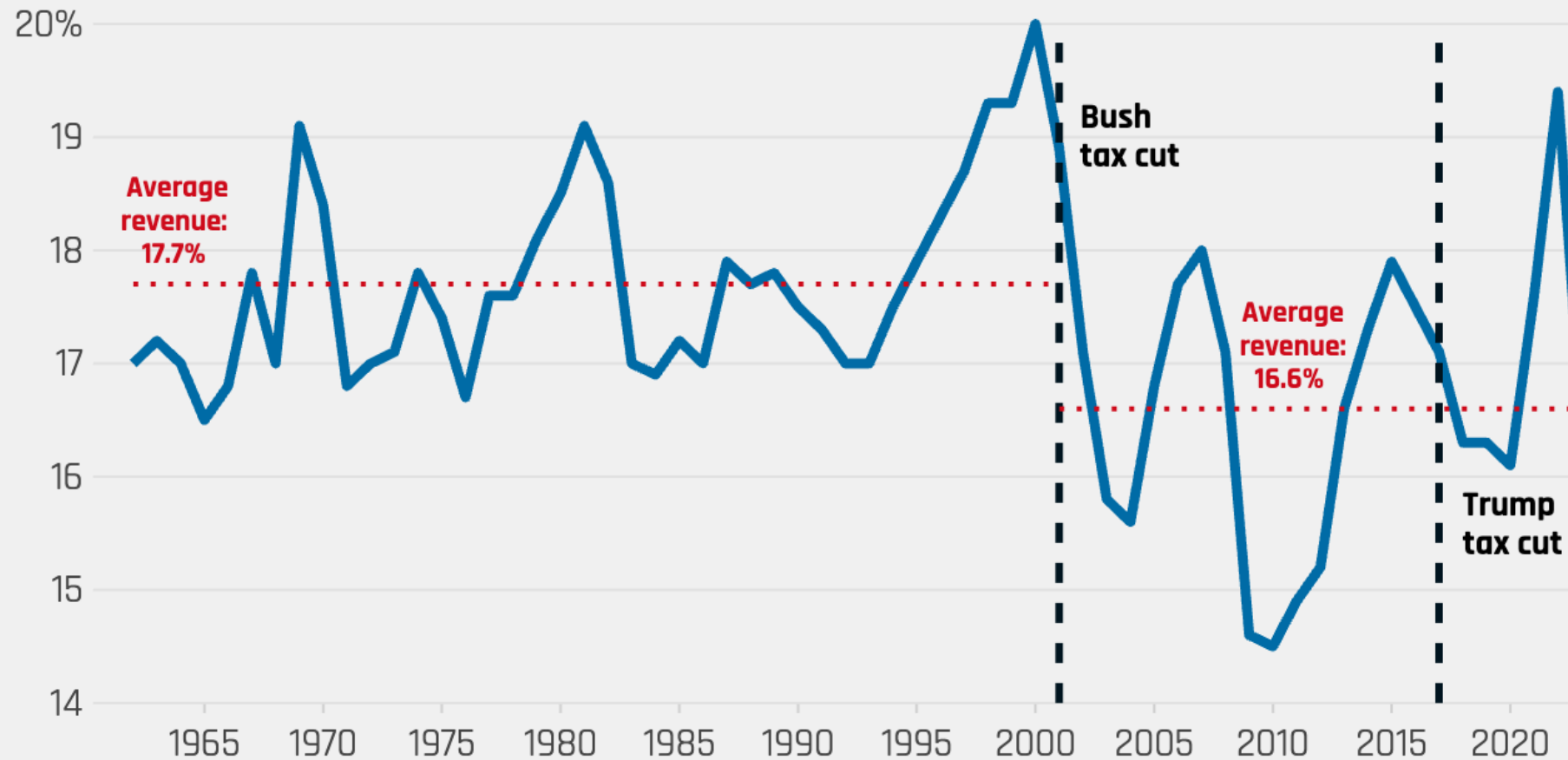
U.S. gross government investment, federal and state, as a share of GDP, 1947-2023



Source: U.S. Bureau of Economic Analysis, "National Income and Product Accounts" [n.d.], Table 1.1.5 and Table 3.9.5; National Bureau of Economic Research for recession dates.

Recent tax cuts have reduced revenue

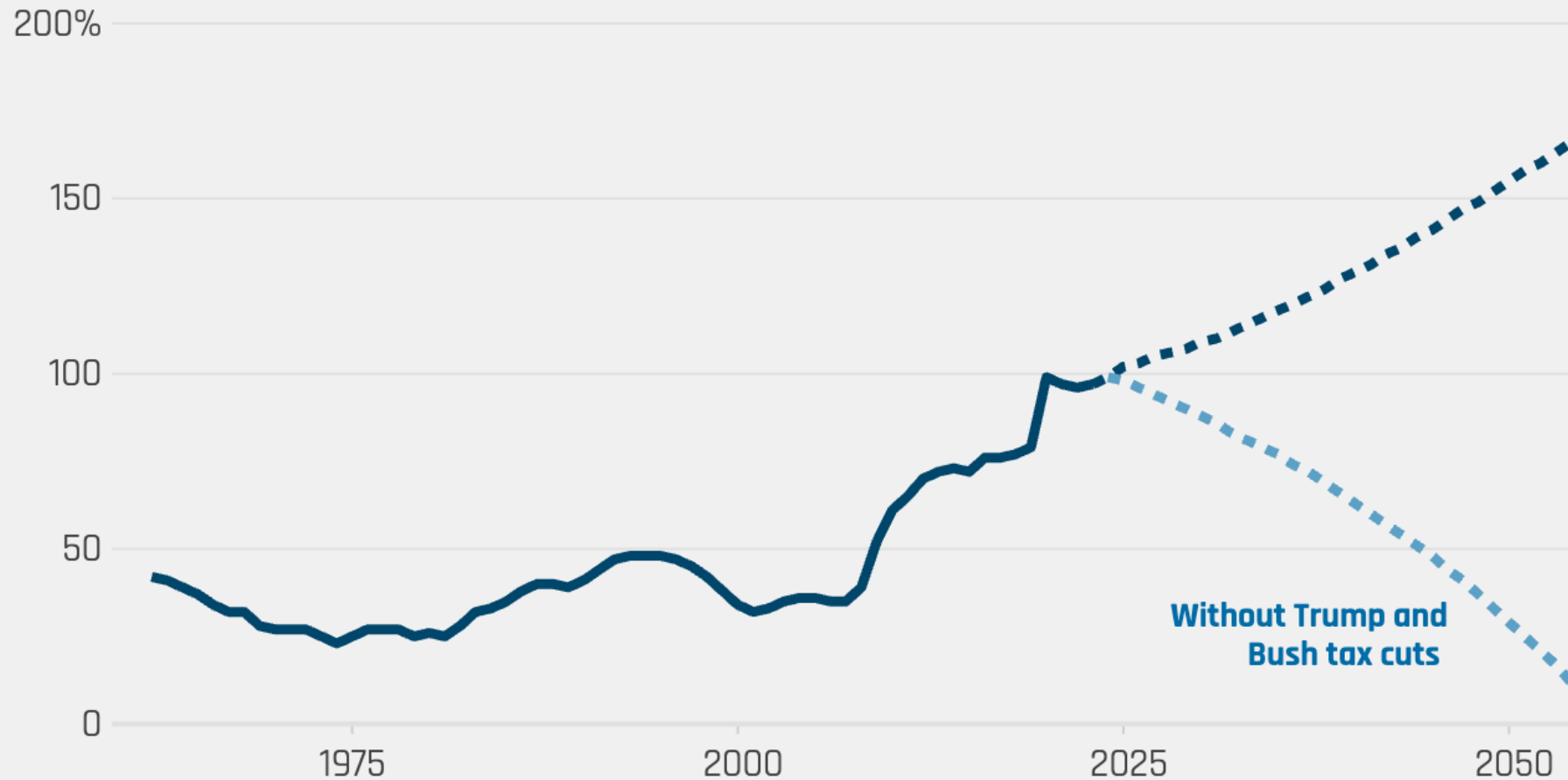
Federal revenues as a share of GDP, 1962-2023



Source: Congressional Budget Office, Supplemental Data Table 1a from "The Budget and Economic Outlook: 2024 to 2034" [February 2024], available at <https://www.cbo.gov/publication/59710>.

Tax cuts are to blame for increasing U.S. debt ratio

Total publicly held U.S. debt, as a percent of GDP, 1962-2054



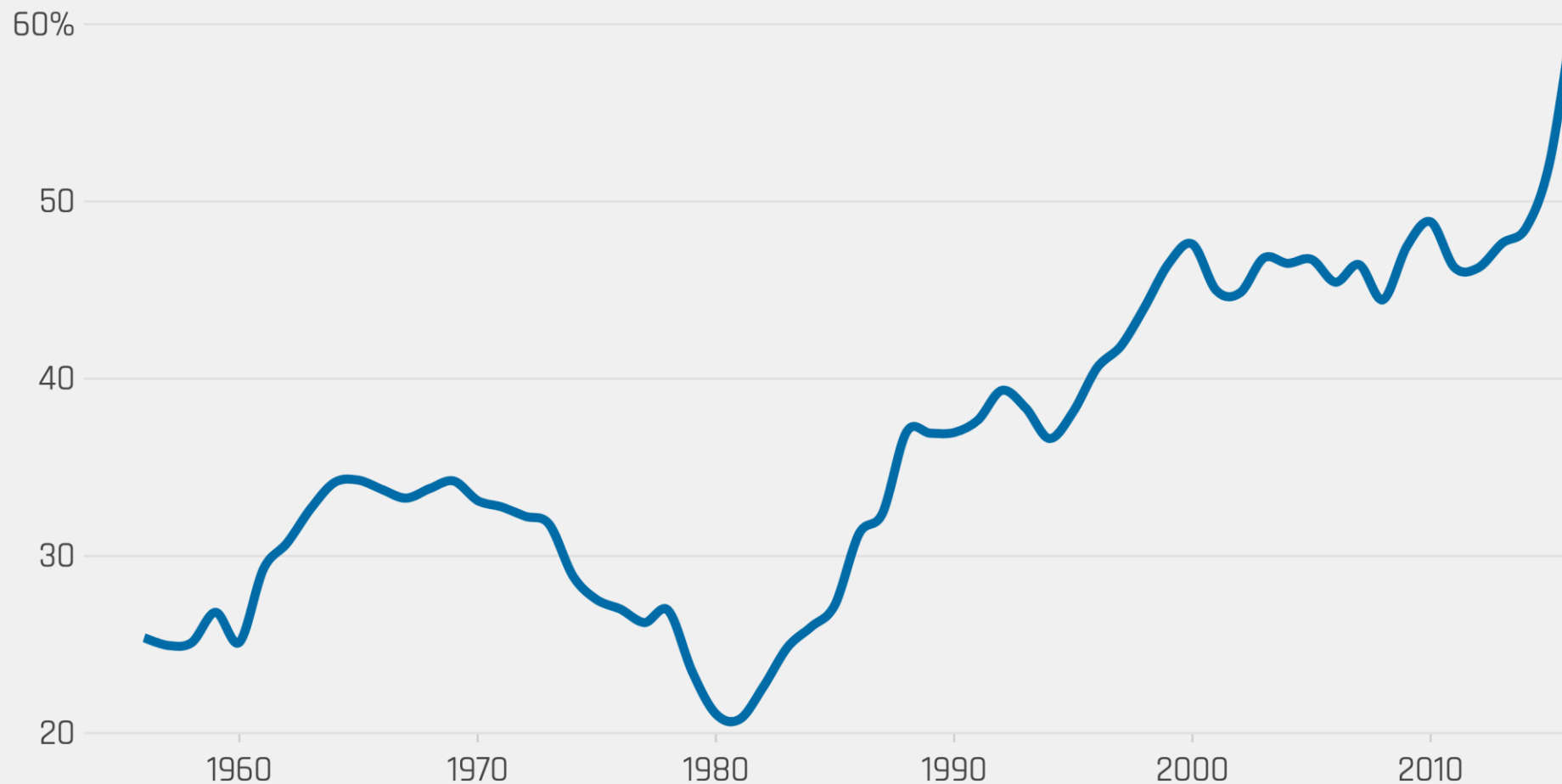
Source: Calculations by Equitable Growth Senior Policy Fellow Michael Linden based on Congressional Budget Office projections.

Encourage competition and innovation

- Underlying economics
 - Corrective taxes vs. revenue-raising taxes
 - Negative externalities, including super-normal returns
 - Positive externalities, including green tech
- State of play
 - Widespread monopoly power
 - Complex and ineffective incentives
 - Wasteful tax planning
- Role of taxes
 - Tax negative externalities & subsidize positive externalities!
 - Reduce artificial, game-able distinctions

Markups have tripled since 1980, a sign of increased monopoly power

Sales-Weighted Average Markups in the U.S., 1955-2016



Source: Jan De Loecker, Jan Eeckhout, and Gabriel Unger. "The Rise of Market Power and the Macroeconomic Implications." [2018]

Corporate Tax Base Is Highly Concentrated

A few large corporations account for most corporate income and corporate income tax

70% of corporate taxable income...

...comes from just **0.1%** of corporate taxpayers (fewer than 400 firms), each paying over \$100 million in taxes.

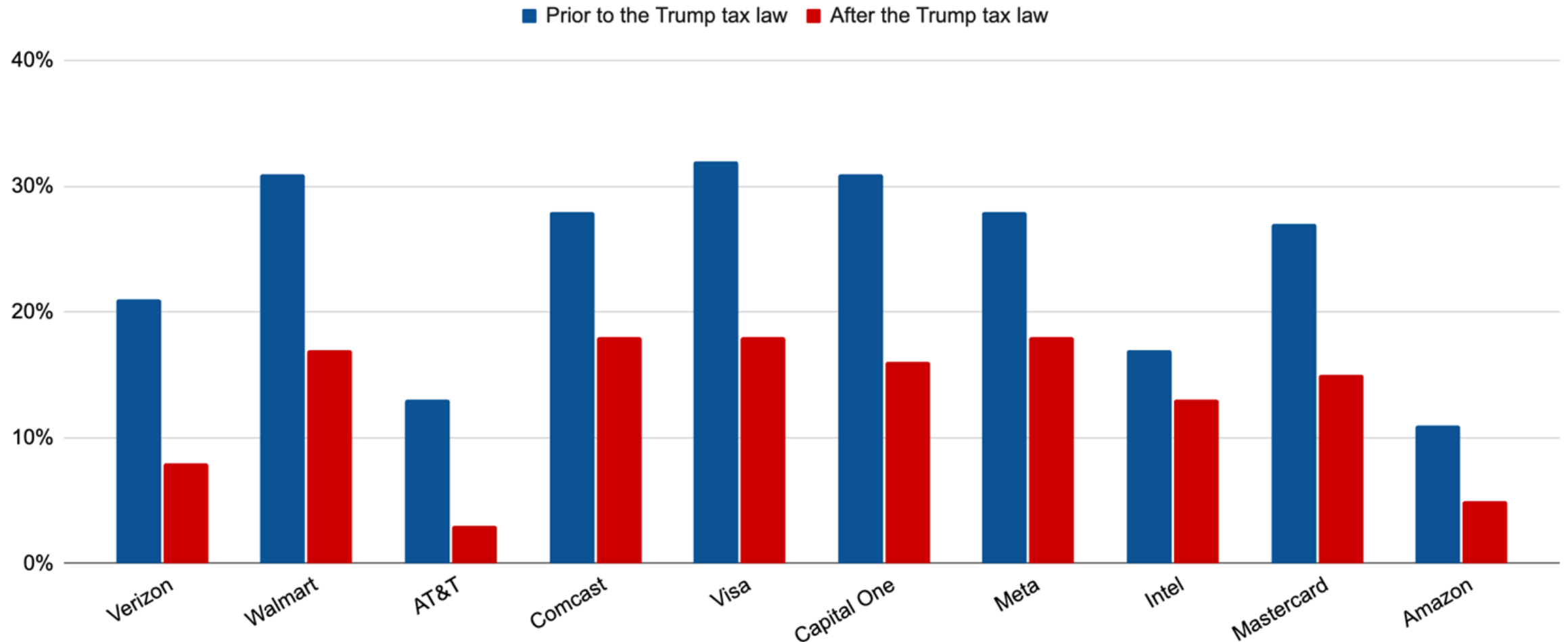
95% of corporate taxable income...

...comes from **2.2%** of corporate taxpayers, each paying over \$1 million in taxes.

Source: US Internal Revenue Service Statistics of Income, 2023. Data show the share of corporations with positive tax liability and corporate taxable income in 2020, and are the most recent published data. Data for 2019 show a very similar pattern.

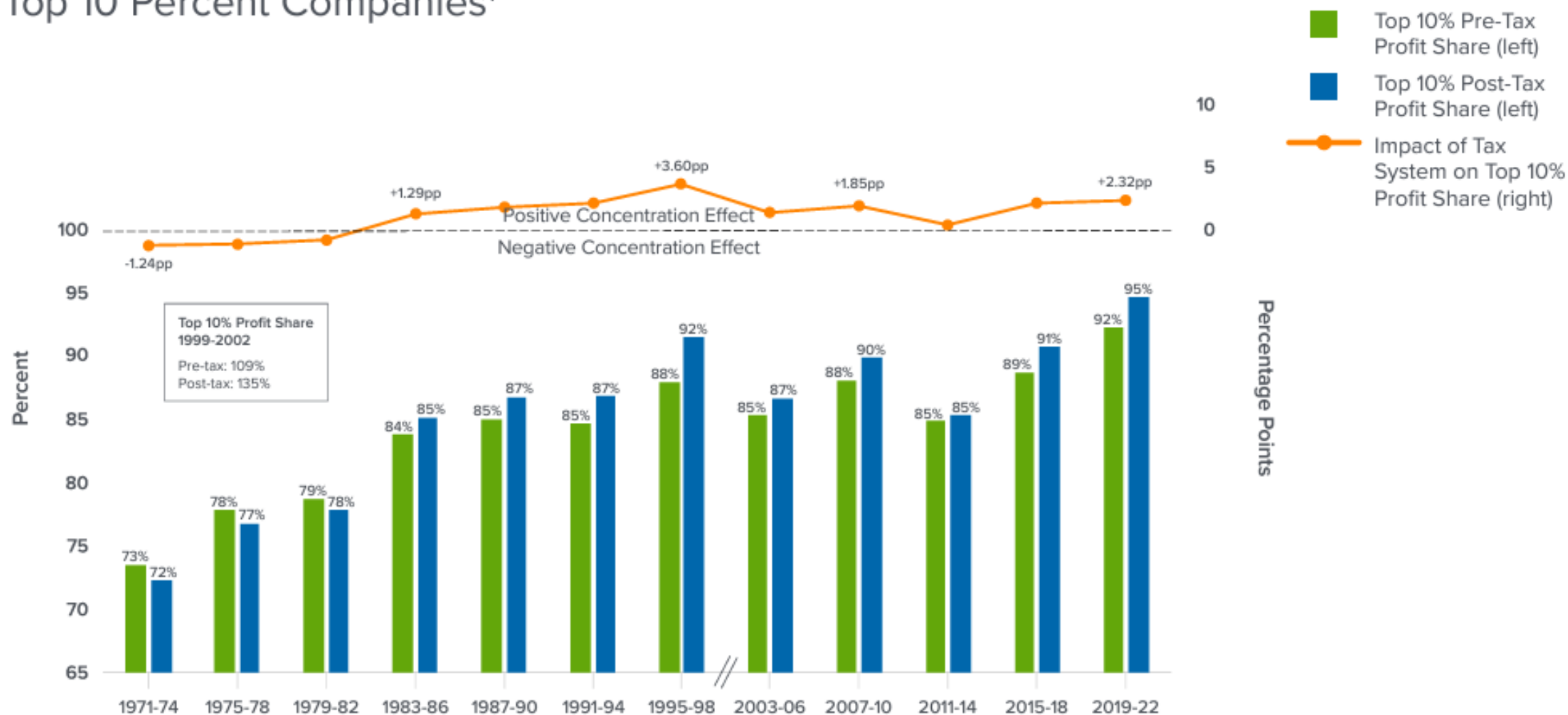
Huge tax cuts for major corporations

Effective tax rates in the years preceding and following the Trump tax law



Source: Matthew Gardner and others, “Corporate Taxes Before and After the Trump Tax Law” (Washington: Institute on Taxation and Economic Policy, 2024), available at <https://itep.org/corporate-taxes-before-and-after-the-trump-tax-law/>.

Figure 1. Overall Pre- Versus Post-Tax Profit Share of the Top 10 Percent Companies¹

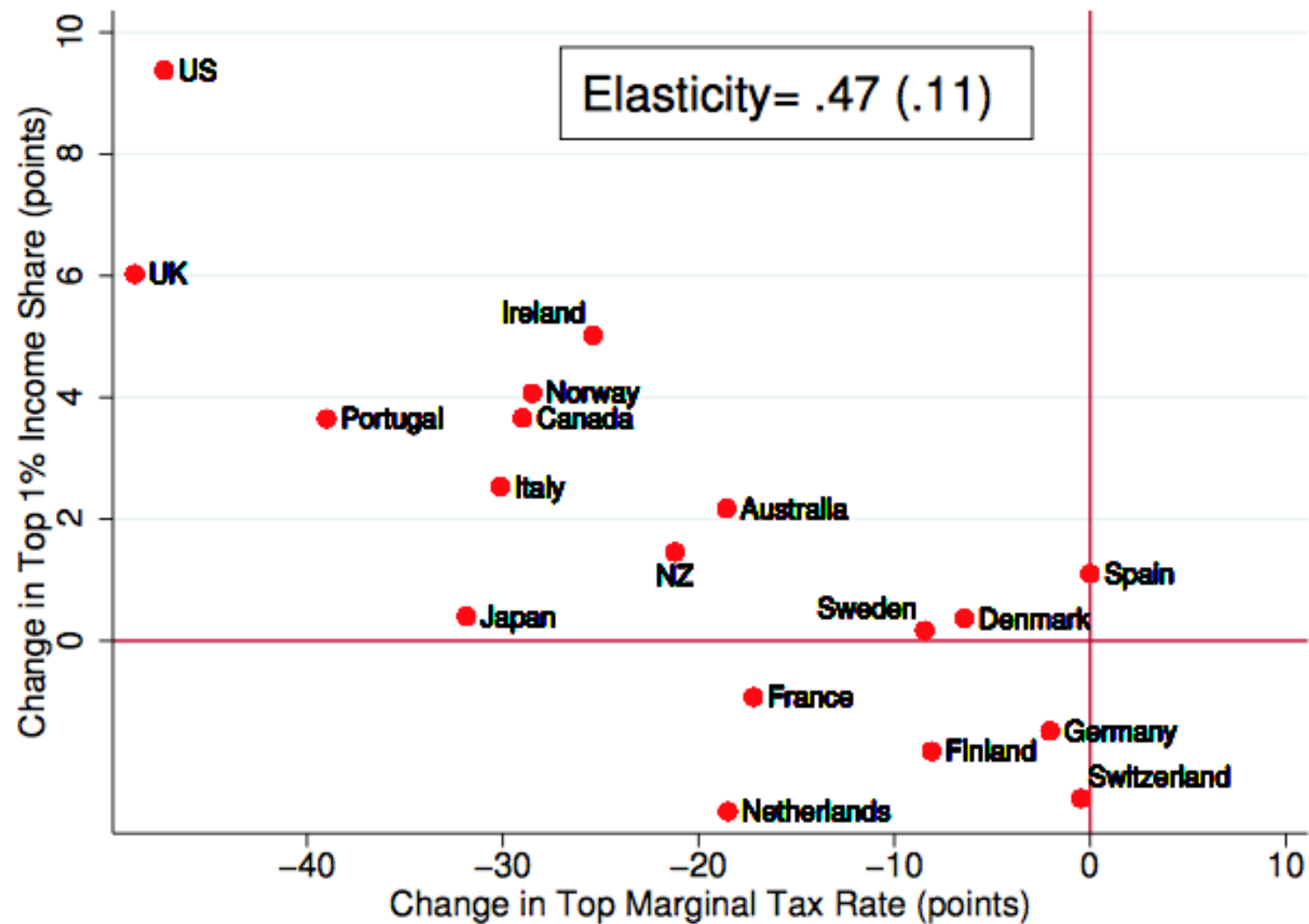


Source: Sandy Brian Hager & Joseph Baines, “Does the US Tax Code Encourage Market Concentration? An Empirical Analysis of the Effect of the Corporate Tax Structure on Profit Shares and Shareholder Payouts” (New York: Roosevelt Institute, 2023), available at <https://rooseveltinstitute.org/publications/does-the-us-tax-code-encourage-market-concentration/>.

Table 1: IMPA model-predicted effects of corporate tax proposals on key macroeconomic indicators
(*annual percentage change in indicator relative to baseline*)

	GDP	Capital Stock	Employment	Wages	Revenue
(a) 10-year effects					
<i>Harris Proposal (28%)</i>	0.08	0.45	0.01	0.04	2.40
<i>Trump Proposal (15%)</i>	-0.05	-0.30	-0.01	-0.03	-2.07
(b) Long-run effects					
<i>Harris Proposal (28%)</i>	0.19	1.12	0.03	0.10	2.84
<i>Trump Proposal (15%)</i>	-0.13	-0.75	-0.02	-0.07	-2.45

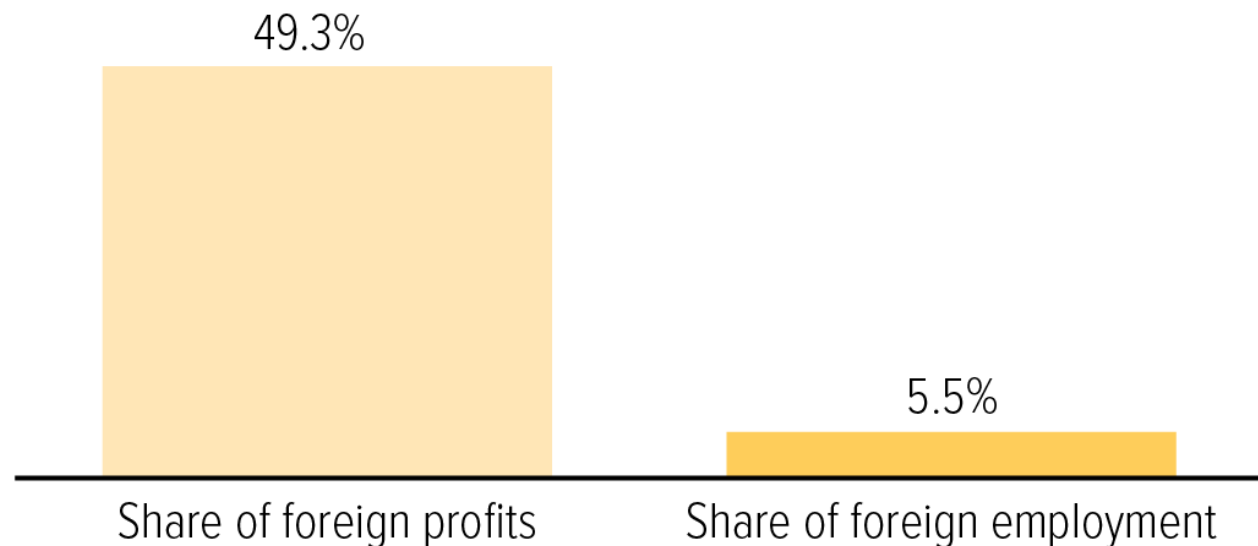
Notes: 10-year effects are calculated assuming a 5% annual convergence rate, as in **Barro and Furman (2018)**. Revenue refers to total federal government revenues.



Source: Thomas Piketty and others, "Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities," *American Economic Journal: Economic Policy* 2014, 6(1): 230–271.

After the 2017 Tax Law, U.S. Multinationals Continue Reporting Significant Profits in Low-Tax Countries

Share of U.S. multinational corporation income and employment in low-tax jurisdictions, 2020



Note: Data are from the Bureau of Economic Analysis (profit type return series); they show the seven traditional low-tax jurisdictions that have hosted a lot of income in the past: Bermuda, the UK Caribbean islands (Caymans), Ireland, Luxembourg, Netherlands, Singapore, and Switzerland. Other BEA series, and the IRS series that uses country-by-country reporting would show even larger discrepancies between profit and employment shares. These data series have important tradeoffs that are discussed further in Clausing (2024).

Source: Bureau of Economic Analysis (BEA) and Internal Revenue Service (IRS) Statistics of Income

Illustrative Policy Examples

POTENTIAL POLICIES	THREE PRO-GROWTH MECHANISMS		
	Combat inequality	Raise revenue	Encourage productive economic behavior
Raise corporate income tax rate	✓	✓	✓
Raise top individual income tax rates	✓	✓	✓
Raise capital gains/dividends taxes	✓	✓	✓
Tax carbon	<i>Depends on rebate</i>	<i>Depends on rebate</i>	✓
Increase EITC/CTC/PTC	✓	<i>No, but pro-growth public investments</i>	✓
Incentivize private investment in R&D and/or physical capital (accelerated depreciation)			<i>Mixed</i>
Extend Sec. 199A pass-through/qualified business income deduction			
[INSERT YOUR IDEA HERE!]			



Questions?



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