

Taxing the Rich

What History Tells Us

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TAXING THE RICH

*A History of Fiscal Fairness
in the United States and Europe*

Top Tax Rates Over Time in Twenty Countries

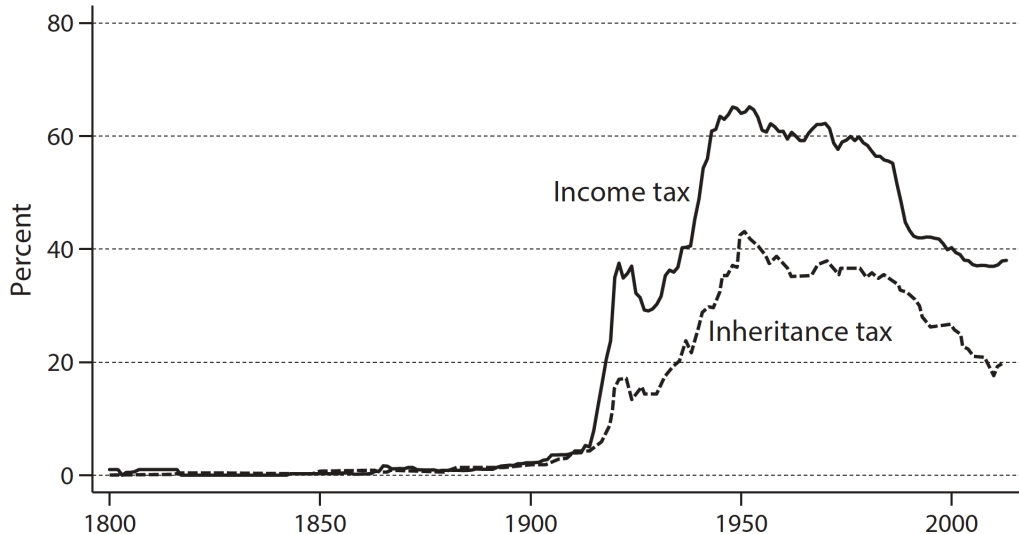


Figure 1.1. Average Top Rates of Income and Inheritance Taxation, 1800–2013.

Top Tax Rates and the Size of Government

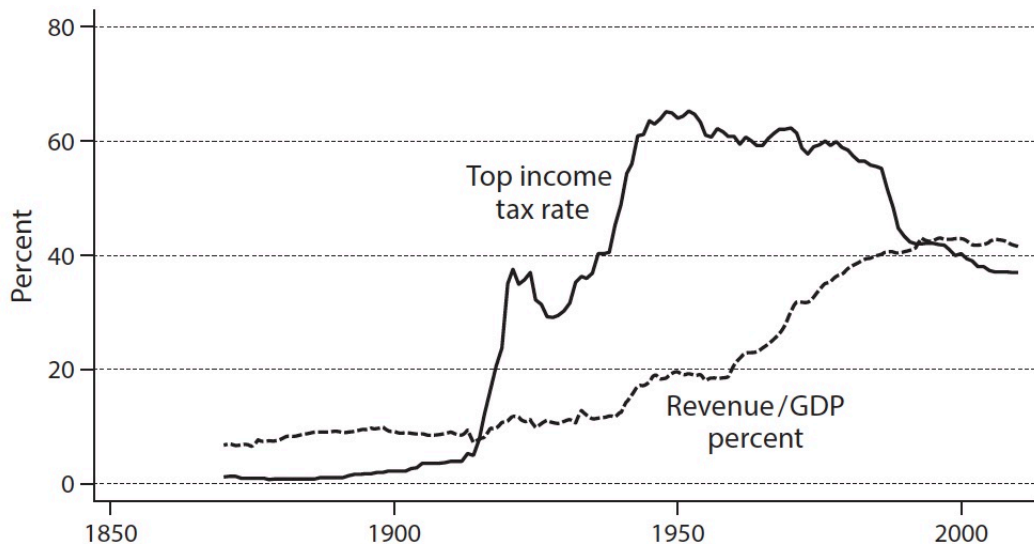


Figure 3.12. Average Top Income Tax Rates and Government Size, 1870–2010.

What May Have Driven These Trends?

1. **The advent of electoral democracy?** - a small effect on top rates
2. **Trends in inequality?** - policy has not responded to inequality
3. **Changing beliefs about tax fairness?** - yes, in response to outside events

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Three Visions of Tax Fairness

- ▶ **Equal Treatment:** Everyone should pay the same tax rate just like everyone has one vote.
- ▶ **Ability to Pay:** The rich should pay a higher rate because they can better afford to do so.
- ▶ **Compensatory Arguments:** The rich should be taxed when everyone else has been asked to sacrifice.

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Four Parts to This Talk

1. Progressive taxation Before 1914
2. Mass warfare and taxes on the rich (1914-1945)
3. The decline in taxes on the rich (1980-2016)
4. What does all this mean for today's debates?

Part One: Progressive Taxation Before 1914

The Nineteenth Century Background

- ▶ Income taxation was non-existent for much of the century
- ▶ Around 1848 debates began on establishing progressive taxation
- ▶ Was this driven by democratization?

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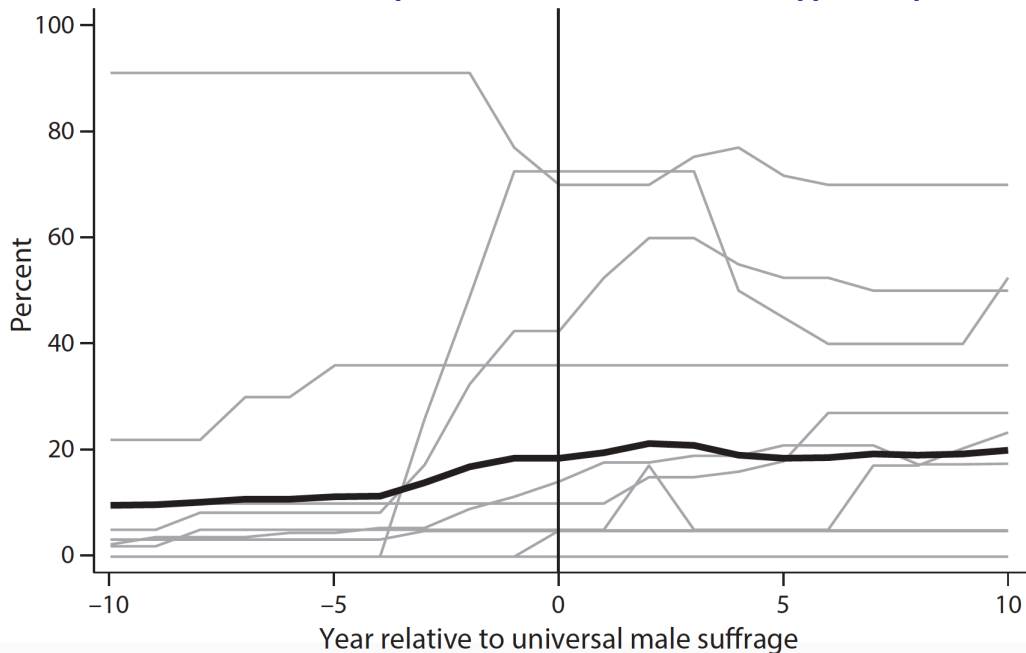
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Electoral Democracy Didn't Produce High Top Rates



What Fairness Arguments Were Offered for Progressive Taxation?

- ▶ Many supporters justified this by the logic of ability to pay
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- ▶ A number of our twenty countries had no income tax at all
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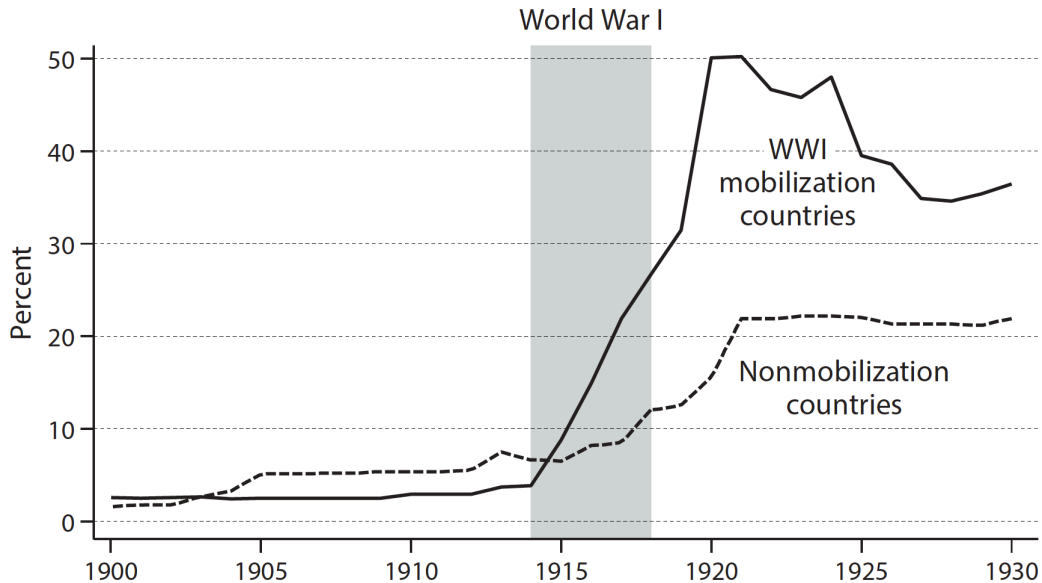
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Part Two:

Mass Warfare and Taxes on the Rich (1914-1945)

What Happened After 1914



The War Effect Was Larger in Democracies

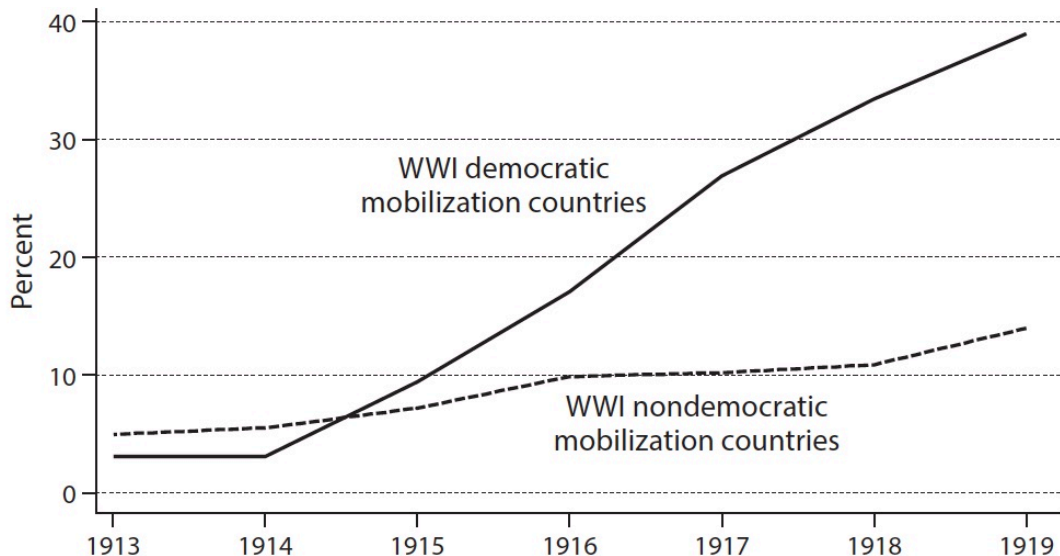
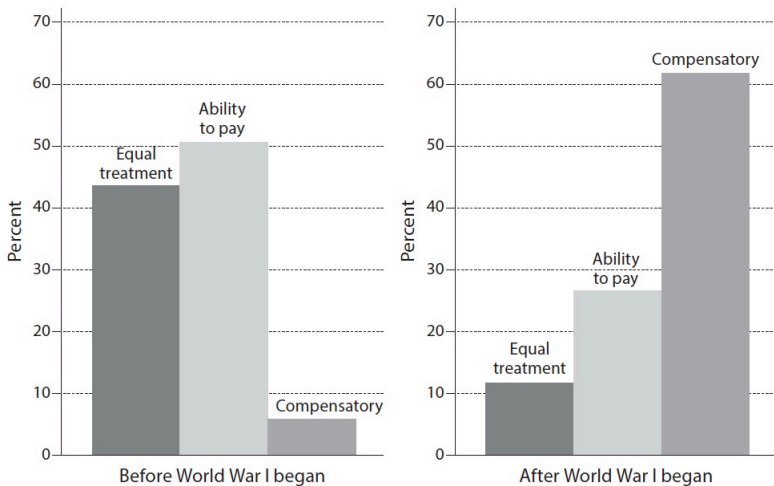


Figure 3.10. World War I and Top Rates by Political Regime Type. This figure reports

Why Mass Warfare Mattered: a New Compensatory Argument

As the manhood of the nation has been conscripted to resist foreign aggression, this Congress demands that such a proportion of the accumulated wealth of the country shall be immediately conscripted (Trade Unions Congress (UK), 1916)

Tracking Compensatory Arguments in the House of Commons



Part 3:

The Decline in Taxes on the Rich (1980-2016)

Potential Explanations for the Decline in Top Tax Rates

- ▶ **Globalization?** Our evidence on capital controls suggests otherwise
- ▶ **Fears for Economic Growth?** No. tax cuts not larger in countries with slower growth
- ▶ **Captured Democracy?** No. Taxes on the rich have come down even where money plays little role in politics.
- ▶ **Our Answer:** By the late 1970s politicians on the left no longer had access to the same wartime compensatory arguments

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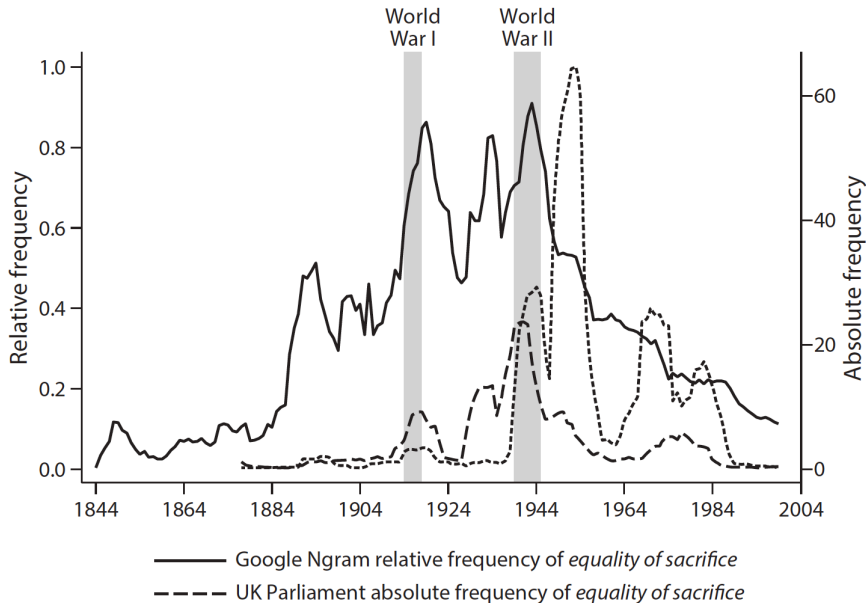
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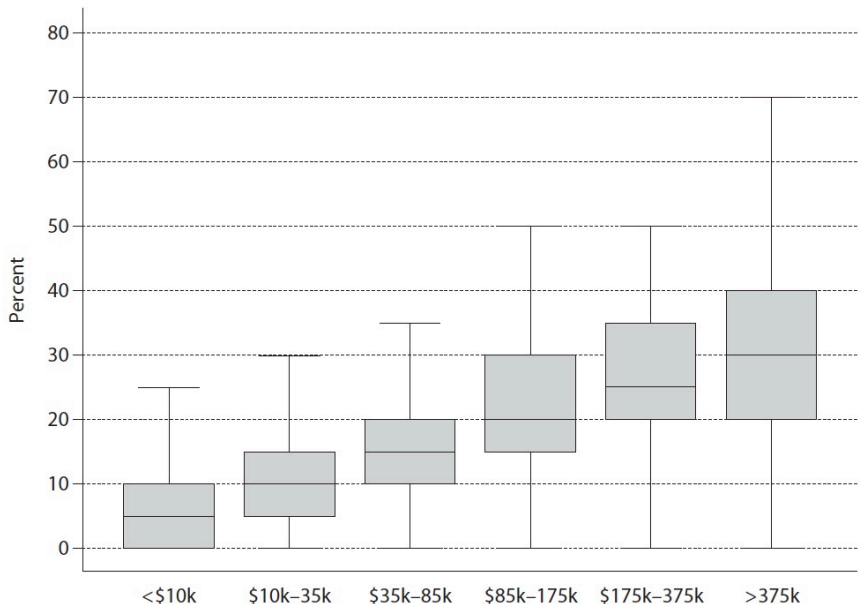
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Using Google Ngrams to Track Wartime Compensatory Arguments



The Tax Rates That (US) Voters Want Today



Part Four:

What Might Shift Today's Debates?

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- ▶ In the US today the higher you are in the top 1 percent, the lower are average effective rates of tax
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- ▶ Addressing this is something that supporters of both equal treatment and ability to pay should agree upon

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4. Recognize How Tax Fairness Works

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- ▶ Today the public wants a fairer tax system but that doesn't necessarily mean a return to the 1950s.
- ▶ Finally, we need to also recognize that different people have different standards of fairness when it comes to taxation

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