## Evidence

# Balancing Act

Tax policy needs adjustment in favor of equality.

**BY PROFESSOR JAMES R. REPETTI '80**
**WITH TIMOTHY HARTWELL '20**

**Just as an efficient tax system can** improve a nation's standard of living by insuring that taxes do not harm welfare, so can tax rate progressivity make important contributions to the well-being of citizens by helping to reduce inequality. Yet in recent decades, there has been an increased focus on economic efficiency in formulating tax policy, which has resulted in decreased rate progressivity in our individual income tax. That decrease has exacerbated inequality.

Inequality imposes measurable costs on the health, social well-being, and intergenerational mobility of our citizens, as well as on our democratic process. These findings are corroborated by significant empirical analysis.

In contrast, anticipated economic efficiency gains from low individual tax rates are speculative. A consensus exists among economists that taxes within the historical range of rates in the United States have little or no impact on labor supply. Moreover, economists cannot agree whether the myriad empirical studies on savings indicate that progressive tax rates decrease, increase, or have no impact on savings in the United States.

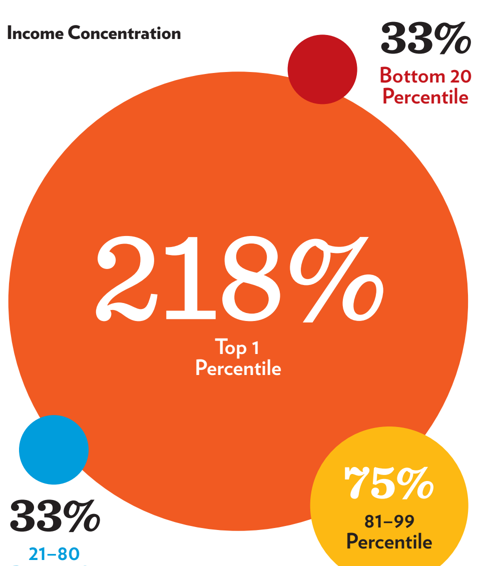
The clear harms arising from inequality and the uncertain harms arising from progressive tax rates, strongly support always giving equity at least equal weight with efficiency in formulating tax policy. But given the high level of inequality in the United States and the currently low and flat tax rate structure, equity should be given more weight than efficiency at this time.

*Repetti's article, "The Appropriate Roles for Equity and Efficiency in a Progressive Income Tax," forthcoming in* Florida Tax Review, *can be downloaded at SSRN.com.*


Illustration by PIETARI POSTI

### INCOME INEQUALITY

**Income Concentration**




Growth in pre-tax income by income groups since 1979

**Distribution of Wealth**

7% → 22%
1978 2012

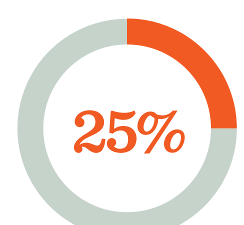
Increase in share of wealth held by top .01%

**Shares of Wealth**

5X Greater

Income difference between top 10% and bottom 10% in US

**Increase in Income Disparity**




Growth in income inequality, 1979 to 2014

**Decline in Wealth**

270%

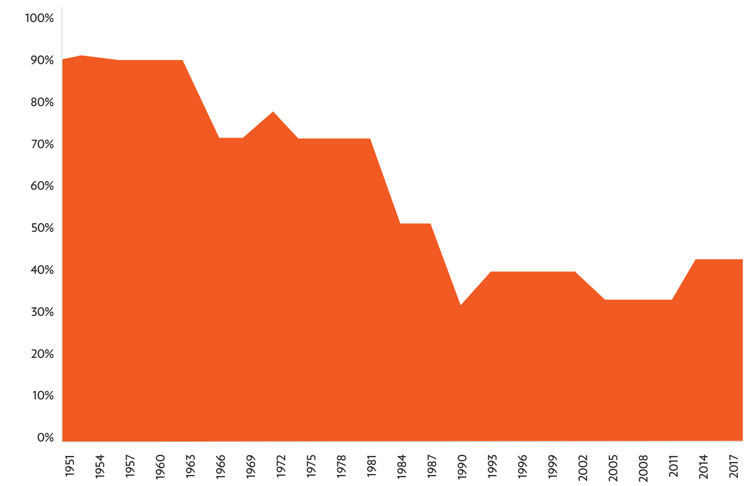
Net worth decline for bottom 40% of US households, 1983 to 2010

78%

Net worth increase for top 20% of households, 1983 to 2010

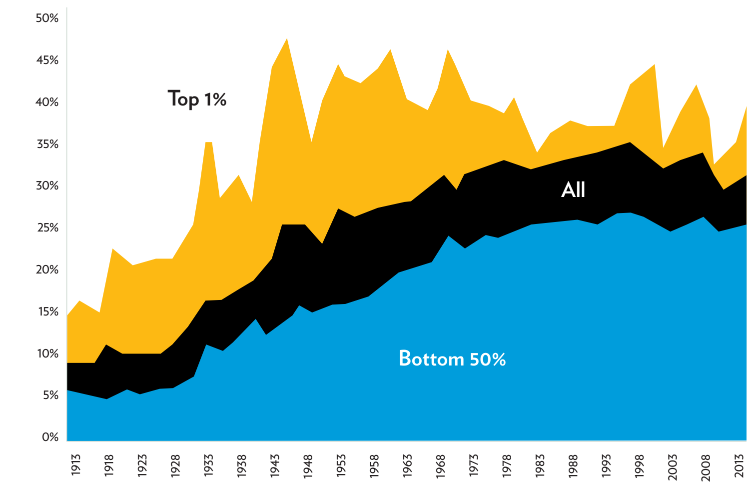
### TAX RATES

**Top Federal Individual Income Tax Rates**




Marginal tax rates are the rates applied to a taxpayer's last dollar of income. By that measure, marginal rates paid by the wealthiest earners decreased from a high of 90% in 1951 to just under 40% percent in 2017.

**Effective Average Tax Rates by Pretax Income Group**




The effective average tax rates paid by income groups from 1913 through 2013. The graph shows that those in the bottom 50% have seen their tax burdens increase, whereas those in the top 1% have seen them decrease since the 1940s.

### IMPACT OF INEQUALITY

**Impact on Democracy**

.01%

Of voting population contributed 40% of all 2012 campaign contributions

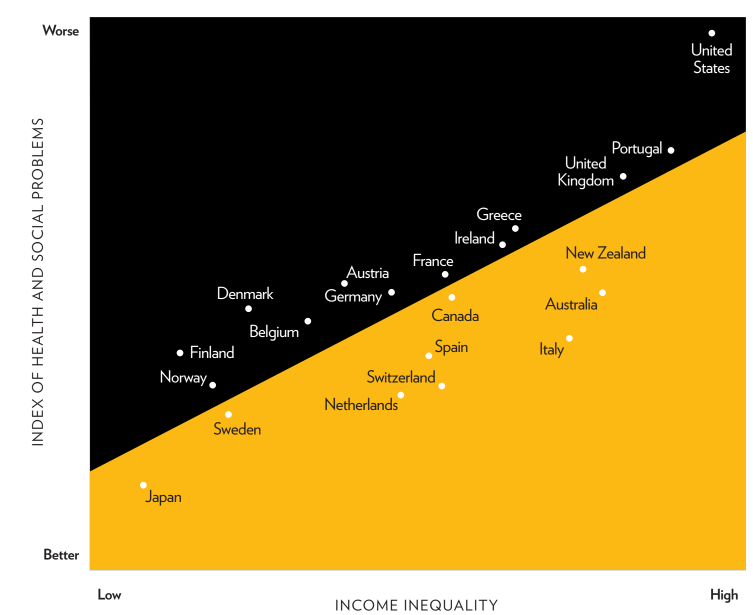
$170 MILLION

Contributed by Fortune 500 board members and CEOs in 2012 election

$500 MILLION

Contributed by 18 families in campaign against estate tax. Result: substantial increase in amounts of wealth exempted from estate tax

**Income Inequality and Health and Social Problems**




A host of health and social ills such as infant mortality and intergenerational immobility result from income inequality. The graph shows the relationship between those ills and inequality in developed nations.

**Income Inequality and...**

**Life Expectancy:** The US has the second lowest life expectancy and second highest income inequality among a set of 22 wealthy countries.

**Infant Mortality:** The US has the highest infant mortality and second highest income inequality rate among a group of 23 wealthy nations.

**Social Mobility:** The US stands with Italy and the United Kingdom as the three nations with the least intergenerational mobility among a group of 13 advanced economies.

**Link Between Taxes and Inequality**

Studies have found that the most significant factor affecting increases in inequality was the decline in the progressivity of federal taxes. They have also concluded that the decline in progressivity contributed to nearly one-half of the increases in wealth inequality during the period 1960 through 2010.

**Sources:** *For a complete list of sources, visit lawmagazine.bc.edu/2020/01/balancing-act.*