

# **Public Policy 290 – Introduction to Tax Policy**

## **Lecture 3: Tax progressivity: a historical perspective**

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## Roadmap

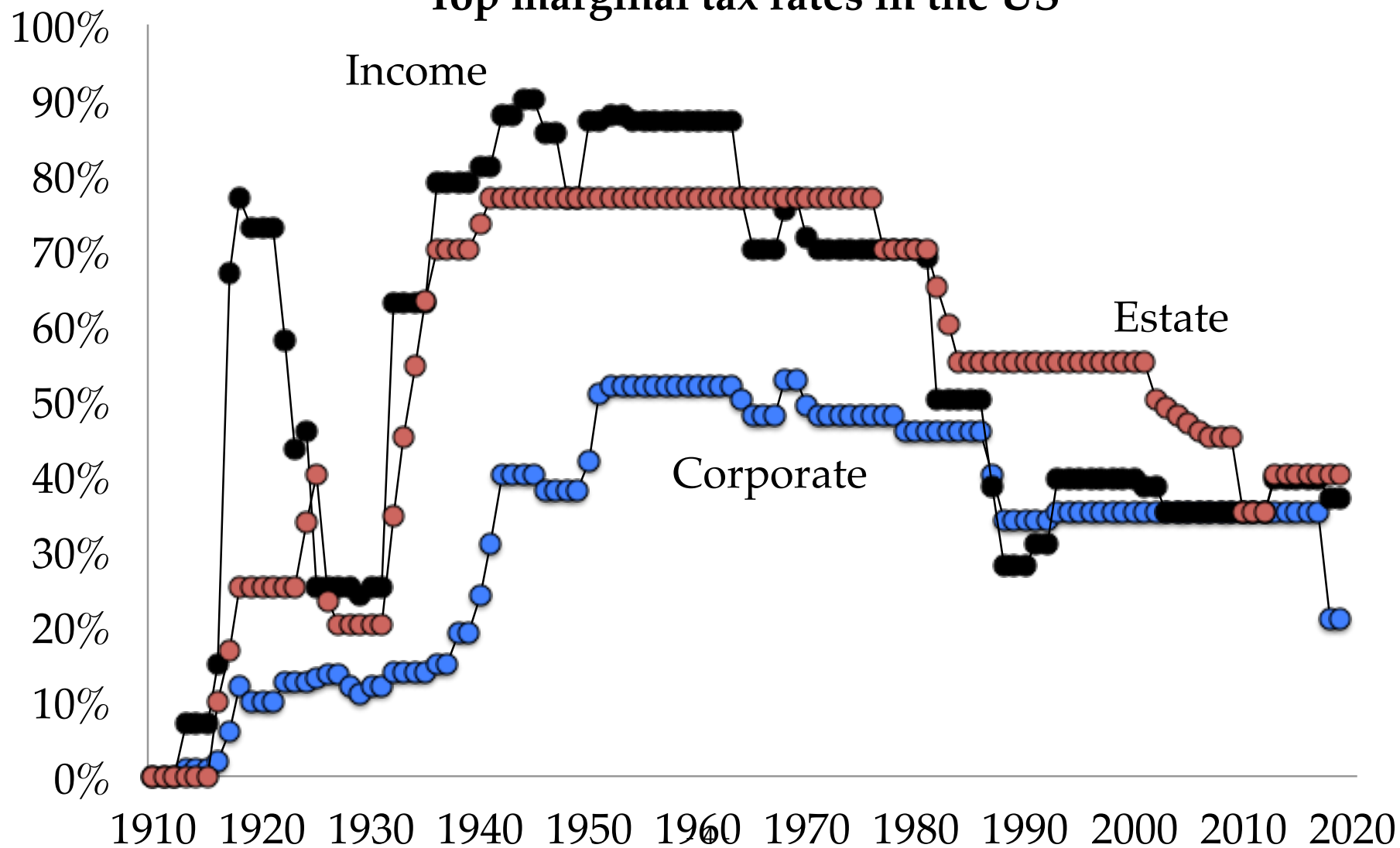
1. The progressive tradition in US fiscal history
2. Was the US tax system ever really progressive in actual facts?
3. Tax progressivity and inequality

# 1 The progressive tradition in US fiscal history

## US pioneered steeply progressive taxation

- $\geq 70\%$  estate tax rate 1936–1980
- $\geq 90\%$  top income tax rates (with higher rates on K)
- High tax rates on corporate profits

### Top marginal tax rates in the US



## Legal maximum income/wealth: a US invention

- Concerns about oligarchic drift & capture span time & political spectrum, from Madison to FDR
- Europe long seen as oligarchic anti-model
- Huey Long 1934 “Share the wealth” society: cap wealth at \$50m (≈ \$3-4 billion today)

## **America's wealth tax tradition:**

- Wealth taxes as far back as 17th c. in Northern states
- Not only on real estate but also financial assets and other personal property
- Contrast with archaic European taxes (salt, excise etc.)

## **Fight over wealth taxation: key in US fiscal history**

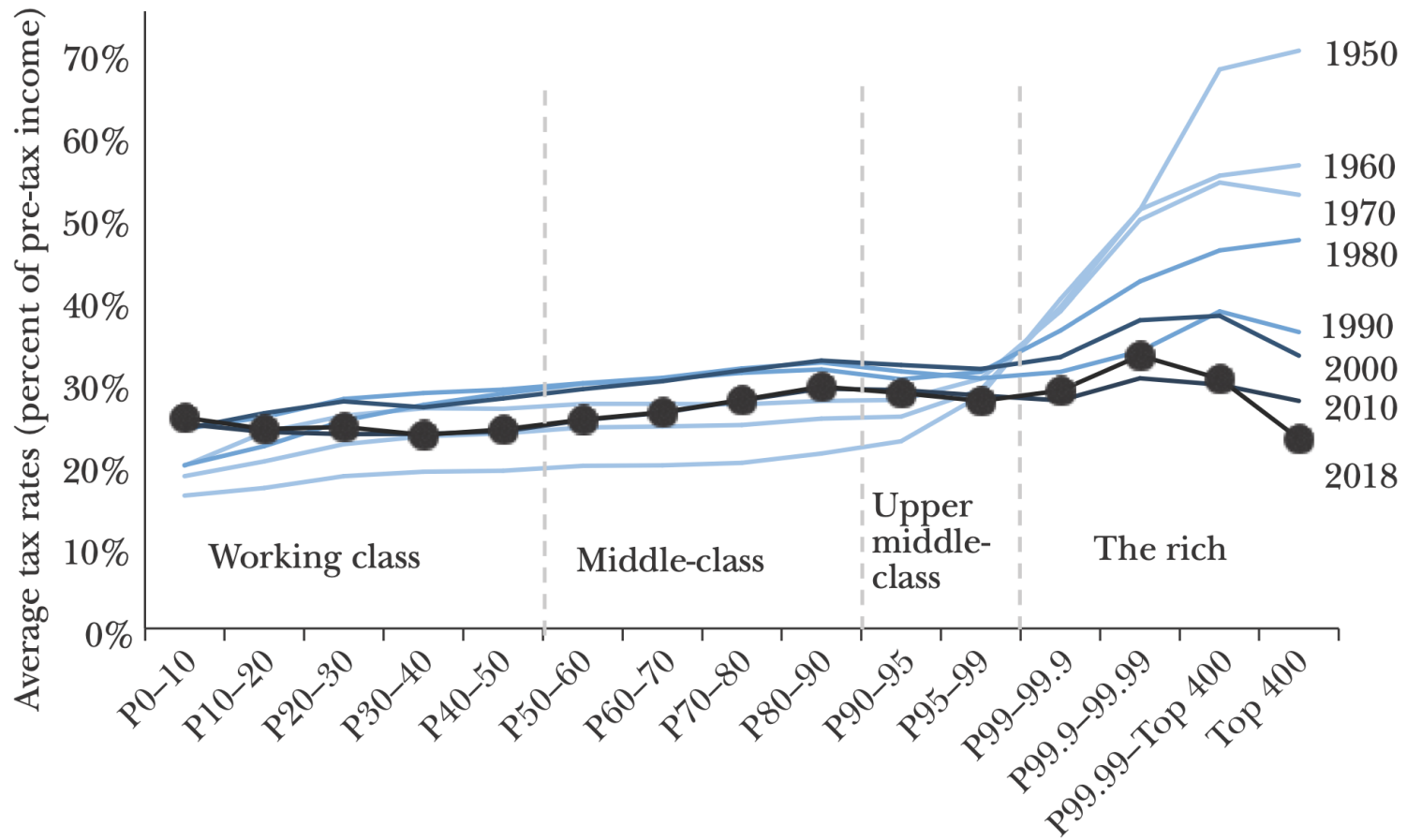
- Massachusetts: wealth taxation until 1915 (attacked by Harvard profs who wanted to tax housing only [regressive], citing European example...)
- Virginia: slave-holding oligarchy existential fight against wealth taxes → archaic poll & sales taxes

## **2 Was the US tax system ever really progressive in actual facts?**

- Allocate all taxes at all levels of government back to 1913
- High progressivity in middle of 20th c

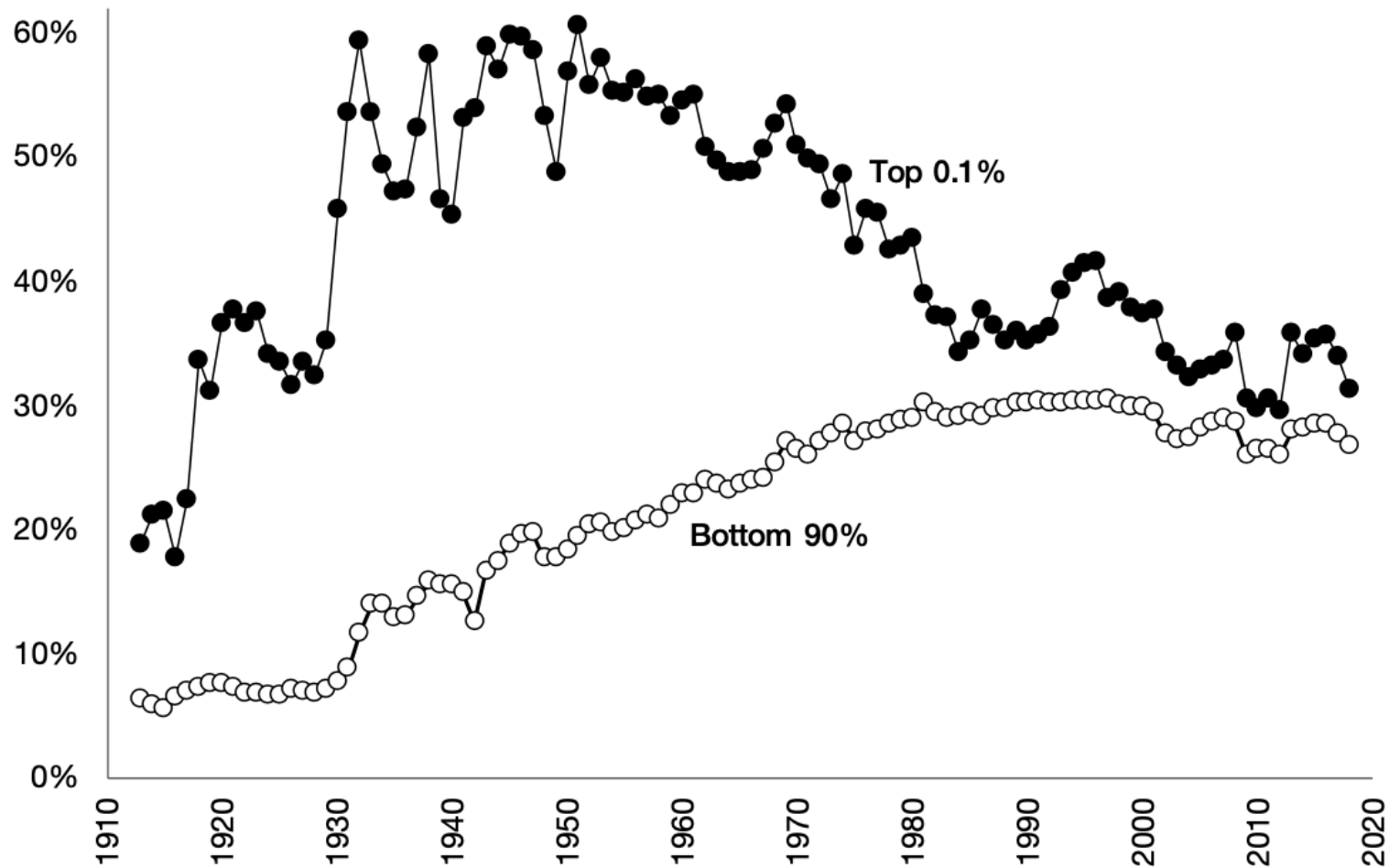


*Figure 5*  
**Average Tax Rates By Income Groups**  
*(percent of pre-tax income)*



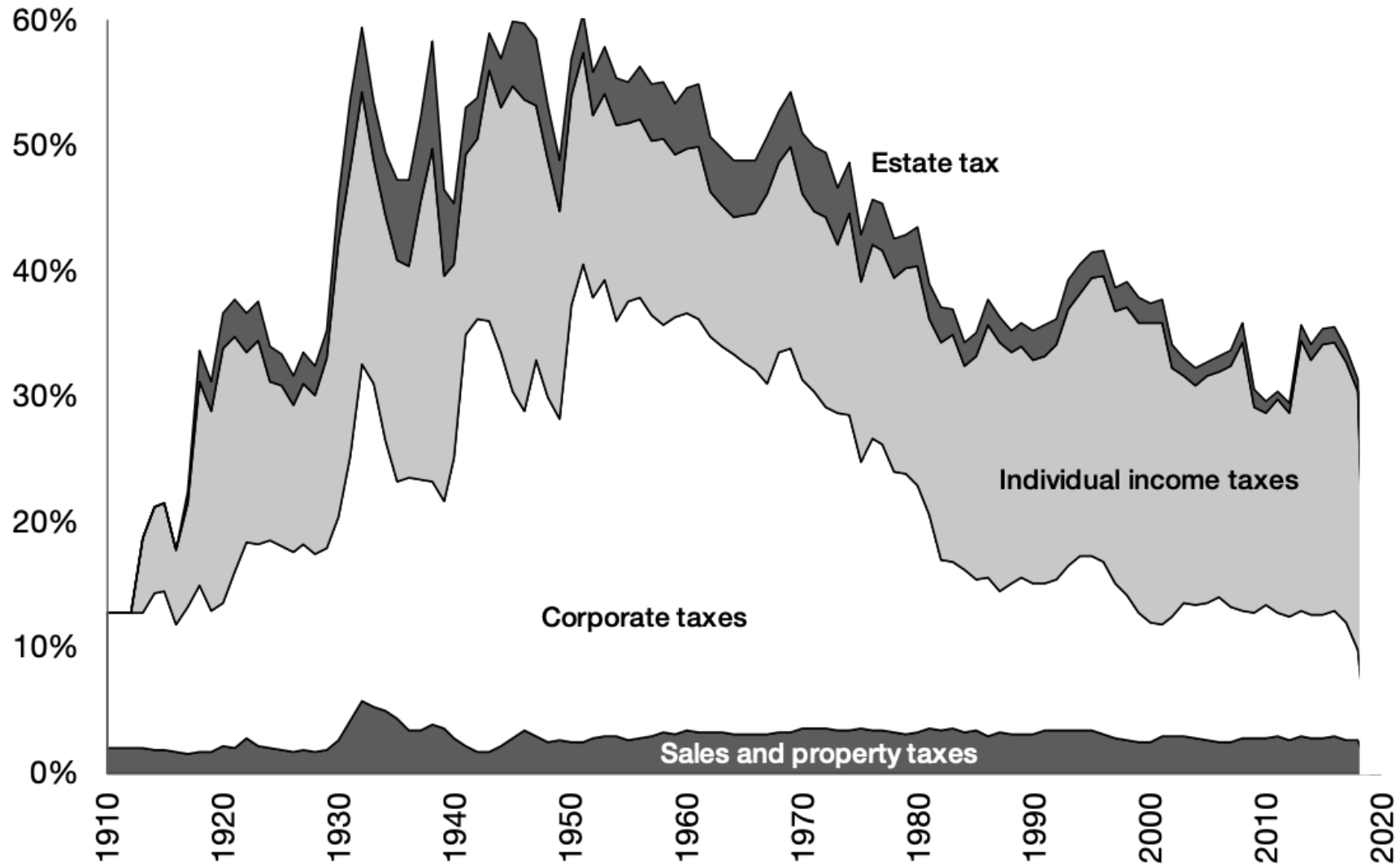
Source: Saez and Zucman (2019b).

(Average tax rates: top 0.1% versus bottom 90% income earners)



Notes: The figure depicts the average tax rate for the bottom 90% and for the top 0.1% income earners since 1913. Taxes include all taxes at all lev-

(Average tax rate of the top 0.1% income earners)

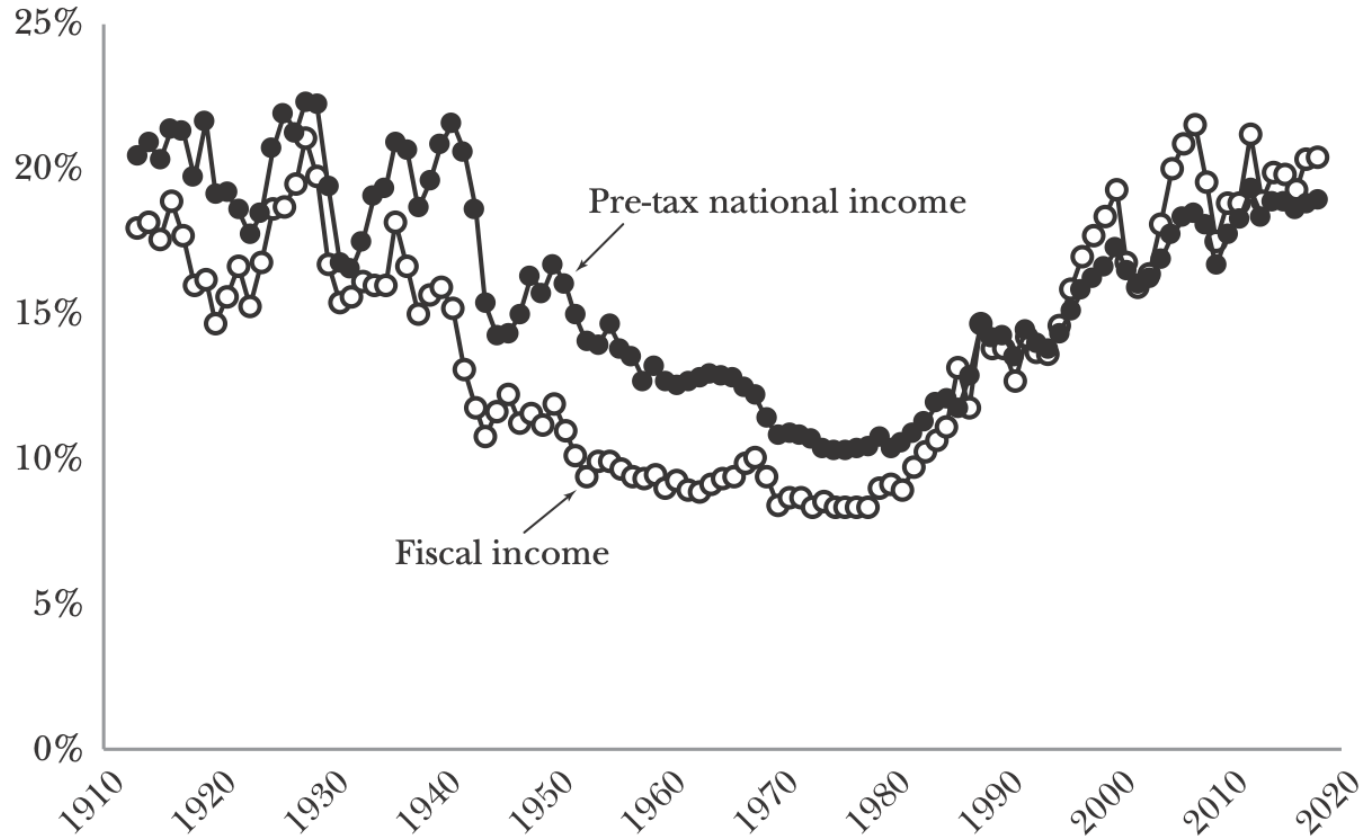


Notes: The figure depicts the average tax rate and its composition by type

### **3 Tax progressivity and inequality**

- Direct mechanical effect on distribution of after-tax income
- But also indirect effect on distribution of pre-tax income (supply and bargaining effects)

*Figure 3*  
**Share of Income Earned by the Top 1 Percent**



*Note:* This figure compares the share of fiscal income earned by the top 1 percent tax units (from Piketty and Saez 2003, updated series including capital gains in income to compute shares but not to define ranks, to smooth the lumpiness of realized capital gains) to the share of pre-tax national income earned by the top 1 percent equal-split adults (from Piketty, Saez, and Zucman 2018, updated September 2020, available on WID.world).

## References

Piketty, Thomas, Emmanuel Saez, and Gabriel Zucman, “Distributional National Accounts: Methods and Estimates for the United States,” *Quarterly Journal of Economics*, 2018 (web)

Saez, Emmanuel and Gabriel Zucman, “The Rise of Income and Wealth Inequality in America: Evidence from Distributional Macroeconomic Accounts,” *Journal of Economic Perspectives*, 2020 (web)