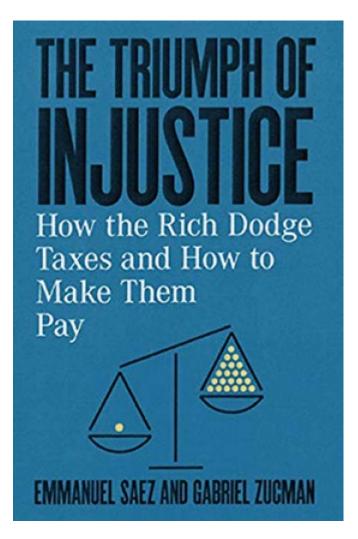
How wealth and unjust tax policy erode democracy

Emmanuel Saez and Gabriel Zucman distill a complex topic into manageable takeaways.

by Andrew W. Stevens in the January 15, 2020 issue

In Review



The Triumph of Injustice

How the Rich Dodge Taxes and How to Make Them Pay

By Emmanuel Saez and Gabriel Zucman W. W. Norton

If you pay close attention to the news or social media, you may have heard recently that in 2018, for the first time, the 400 richest Americans paid a lower average tax rate than those in the bottom half of the income distribution. (Yes, you read that correctly.) If you think that sounds unfair, you are not alone: as I write, the Democratic presidential primary is in full swing with candidates floating different policy proposals that would increase taxes on the wealthy and expand social services for the poor and middle class.

Some are content to leave the details of these plans to the policy wonks. But others want to engage more deeply with this national debate. What is the full story behind oft-quoted stump speech statistics? What is the historical context of our current income and wealth inequality? Are new proposed policies actually practical or merely political pipe dreams? Economists Emmanuel Saez and Gabriel Zucman, both professors at the University of California, Berkeley, tackle these questions head-on in their new book about income inequality and tax policy. Synthesizing groundbreaking academic research spanning the past decade (much of it their own), the authors distill a complex topic into manageable takeaways for anyone with a moderate tolerance for numbers and jargon.

Saez and Zucman, along with Thomas Piketty (whose 2014 magnum opus *Capital in the Twenty-First Century* received significant media coverage), have revolutionized modern scholarship on public finance. Their greatest contribution has been to collect and analyze previously unavailable data on income, wealth, and taxes, helping move the field from theory to practice. For example, to construct their marquee statistic about the wealthiest Americans paying a lower average tax rate than the working class, the authors account for not only the federal income tax but also payroll taxes, state income taxes, dividend and capital gains taxes, and even consumption taxes. Their goal is to grasp the entire economic picture, drawing a distinction between accounting-based measures of income and taxes and the true economic sense of these terms.

The authors present an untraditional perspective on tax policy: they advocate for stronger regulations and higher tax rates than conventional wisdom would suggest, even among other academic economists. And yet, Saez and Zucman are by no means fringe or heterodox scholars. Their peer-reviewed research is highly regarded, well-published, and respected within the field. *The Triumph of Injustice* therefore plays two roles: (1) it makes their work accessible and relevant for a lay audience, and (2) it engages with an active political debate about public policy. (Saez and Zucman are also advising Senator Elizabeth Warren in the Democratic presidential primary.)

What do these economists suggest? First, they argue for higher and more progressive tax rates, especially on capital (corporate earnings, stock dividends, capital gains, etc.) to bring tax rates on capital in line with tax rates on labor. Second, they argue for policy reform and increased enforcement to reduce ethically and legally dubious (but pervasive) tax avoidance. Third, they argue for new regulatory regimes designed to combat international tax evasion in the form of offshore accounts or multinational corporations. The authors challenge the widely held belief that globalization necessitates a "race to the bottom" in tax rates and illustrate how countries could act unilaterally to stamp out international tax evasion. Finally, in line with Piketty's work, Saez and Zucman propose a wealth tax on particularly large fortunes. Throughout, the authors argue that wealth and income inequality erode democracy itself, making the policymaking process susceptible to political capture.

Although written for a broad audience, this book is inherently wonky. To grapple with tax policy requires a baseline familiarity with concepts such as average versus marginal tax rates or economic elasticities. Thankfully, the core insights are easy to grasp, and frequent charts and figures effectively illustrate the most important points. Most readers who put in the effort to follow the authors' arguments will understand the main insights, even if the details remain a bit opaque.

My biggest critique of this book is that it fails to sufficiently engage with opposing arguments. For instance, there are good reasons to think that taxing capital at lower rates than labor boosts saving at the macroeconomic level and increases aggregate economic growth. And there are ways other than capital taxes to reallocate that aggregate growth. Personally, I am much more concerned with the intergenerational transmission of fortunes (e.g., the Walton heirs) or large-scale tax-free spending (e.g., the Gates Foundation, which is not accountable to the public) than I am with rich people being able to buy expensive yachts. In that case, perhaps tax reform should focus on expanding the estate tax and eliminating ways to redirect wealth tax-free. I think Saez and Zucman have good responses for their detractors, but such points get lost in what can sometimes feel like an echo chamber. The authors also walk a fine line between treating economics as a positive science (concerned with what is) and something more normative (concerned with what should be). Overall, they are largely successful at navigating this tension, at times quite artfully. Consider their rhetorical contemplation of a wealth tax: "Is a radical wealth tax worth it? Would society benefit . . . even if it means lower tax collection at the top end? Over the years, our own thinking about this question has evolved as the stagnation of working-class income and the boom in extreme wealth became clearer in the data. Perhaps yours will too."

More broadly, Saez and Zucman are quite comfortable inviting the reader to consider the historical and even ethical dimensions of the economic phenomena they study. For example, rather than accepting tax avoidance as an inevitable consequence of a capitalistic society, they condemn it as immoral and put the onus on democratic society to treat it as such. This may sound refreshing to some ears, but things get more complicated when one considers all the ultimate implications. Should churches and charities pay taxes? Should the charitable giving deduction go away? What about tax-advantaged retirement accounts? No wonder economists' most famous catchphrase is "but on the other hand...."

As an economist, I often bemoan the state of public discourse about my field. Reality is too complicated for a sound bite, but not so complicated that it is inscrutable. *The Triumph of Injustice* is an excellent way to get up to speed about the global tax system, income and wealth inequality, and ongoing policy debates. Further, it challenges readers to think about just how different the future could be. Not all economics is dismal.