The Triumph of Injustice, by Emmanuel Saez and Gabriel Zucman: How tax cuts for the rich fuel inequality

By Andre Damon
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The Triumph of Injustice, by economists Emmanuel Saez and Gabriel Zucman (2019, W. W. Norton), documents how governments have systematically allowed the wealthy to dodge taxes, and then cut corporate tax rates in the name of "closing tax loopholes," helping to fuel runaway inequality.

Saez and Zucman are world-renowned experts in the economics of social inequality. In recent years, they have turned their attention to documenting the prevalence of tax evasion by the super-rich. The results of this research are condensed into a 232-page volume.

The two economists demonstrate that for the first time in modern US history, the very rich in 2018 paid a lower percentage of their income in taxes than the average worker, and that the US tax system, far from being progressive, as commonly claimed, is regressive.

The second half of the book consists of policy proposals. Saez and Zucman advocate a form of capitalist reformism similar to that of Bernie Sanders and Elizabeth Warren, who consulted the two economists in formulating portions of her program.

We do not share the view of Saez and Zucman that social inequality can be fought outside of a struggle against the capitalist social order. But their presentation of the growth of social inequality in the United States and the role that tax policy has played is vital and should be widely read.

The book begins with a description of the scale of social inequality in the United States:

> In 1980, the top 1 percent earned a bit more than 10 percent of the nation's income, before government taxes and transfers, while the bottom 50 percent share was around 20 percent. Today, it's almost the opposite: the top 1 percent captures more than 20 percent of national income and the working class barely 12 percent. In other words, the 1 percent earns almost twice as much income as the entire working class population, a group fifty times larger demographically. And the increase in the share of the pie going to 2.4 million adults has been similar in magnitude to the loss suffered by more than 100 million Americans.

The book proceeds to describe the incomes of the various sections of American society:

> Let's start with the working class, the 122 million adults in the lower half of the income pyramid. For them, the average income is $18,500 before taxes and transfers in 2019. Yes, you are reading this correctly: half of the US adult population lives on an annual income of $18,500.

This contrasts sharply with the lives of the affluent upper-middle class—those in the 90th to 91st percentile:

> With an average income of $220,000 and everything that goes with it—spacious suburban houses, expensive private schools for their children, well-funded pensions, and good health insurance—they are not struggling.

At the top are the 2.4 million wealthiest people in the United States, part of the top 1 percent, "whose members make $1.5 million in income a year on average."

Saez and Zucman argue that this level of social inequality is the outcome of deliberate policy choices on the part of lawmakers. They describe how for decades, successive administrations have slashed taxes on the wealthy and corporations, leading to a massive increase in social inequality.

They note that "confiscatory" taxes levied on the very wealthy under the New Deal helped rein in the social inequality of the 1920s, leading to a more equitable distribution of wealth in the middle of the 20th century:

> From 1930 to 1980, the top marginal income tax rate in the United States averaged 78 percent. This top rate reached as much as 91 percent from 1951 to 1963. Large bequests were taxed at quasi-confiscatory rates during the middle of the twentieth century, with rates nearing 80 percent from 1941 to 1976 for the wealthiest Americans.

They continue:

> In 1970, the richest Americans paid, all taxes included, more than 50 percent of their income in taxes, twice as much as working-class individuals. In 2018, following the Trump tax reform, and for the first time in the last hundred years, billionaires have paid less than steel workers, schoolteachers, and retirees.

In fact,

> The wealthy have seen their taxes rolled back to levels last seen in the 1910s, when the government was only a quarter of the size it is today.

They argue that, more and more, the capitalist class is being exempted from taxation:

> The explosive cocktail that is undermining America's system of taxation is simple: capital income, in varying degrees, is becoming tax-free.

Such a social order has much in common with the tax collection practices of the French monarchy, which are described in detail:

> French kings pampered the affluent and bludgeoned the populace. France had an income tax (taille), whose main claim to fame was that it exempted almost all privileged groups: the aristocracy, the clergy, judges, professors, doctors, the residents of big cities, including Paris, and, of course, the tax collectors themselves—known as the fermiers généraux (tax farmers). The most destitute members of society, at the same time, were heavily hit by salt duties—the dreaded gabelle—and sprawling levies (entrées and octrois) on the commodities entering the cities, including food, beverages, and building materials.

The perpetual lowering of taxes on the wealthy has had a symbiotic relationship with the systematic toleration of tax evasion by the rich on the part of the US government, which is particularly evident in the effective elimination of the estate tax.

> While estate and gift tax revenues amounted to 0.20 percent of household net wealth in the early 1970s, since 2010 they have barely reached 0.03 percent–0.04 percent annually—a reduction by a factor of more than five.

The authors provide further documentation of this "collapse in enforcement:"

> In 1975, the IRS audited 65 percent of the 29,000 largest estate tax returns filed in 1974. By 2018, only 8.6 percent of the 34,000 estate tax returns filed in 2017 were examined.
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> The capitulation has been so severe that if we take seriously the wealth reported on estate tax returns nowadays, it looks like rich people are either almost nonexistent in America or that they never die.

Saez and Zucman document the extent to which US corporations dodge taxes by booking profits in offshore tax havens.

> Today, close to 60 percent of the—large and rising—amount of profits made by US multinationals abroad are booked in low-tax countries. Where exactly? Primarily in Ireland and Bermuda.

They explain how a massive industry exists to help companies evade taxes, making clear that most of these tax dodges are illegal because US law prohibits any investment decision whose sole aim is to evade taxes.

For decades, systematic tax evasion by major corporations was used as a pretext for lowering corporate tax rates, in the name of supposedly "closing loopholes." The claim that "closing loopholes" would compensate for lost tax revenues resulting from lower corporate tax rates, while supposedly accelerating economic growth, has constituted the bipartisan consensus on tax policy, and remains so to this day. The authors write:

> For the majority of the nation's political, economic, and intellectual elites, slashing the corporate tax rate was the right thing to do. During his presidency, Barack Obama had advocated in favor of reducing it to 28 percent, with a lower rate of 25 percent for manufacturers.

The capstone of this was Trump's 2018 tax bill, which slashed the corporate income tax rate from 35 percent to 21 percent. This was part of an international process:

> As Trump's bill passed, French president Emmanuel Macron vowed to cut the corporate tax from 33 percent to 25 percent between 2018 and 2022. The United Kingdom was ahead of the curve: it had started slashing its rate under Labour Prime Minister Gordon Brown in 2008 and was aiming for 17 percent in 2020. On that issue, the Browns, Macrons, and Trumps of the world agree.

Having presented this analysis, Saez and Zucman explain what they propose to do about it. They argue for increasing taxes on the wealthy, including a tax on wealth, increasing the top income tax bracket, and raising the corporate tax rate.

While taxation would be used broadly to redistribute income to the level of inequality that existed in the 1930s, the vast bulk of the cost of constructing a social welfare state would be borne by an effective tax increase on working people.

The majority of tax revenue would be raised with a flat "national income tax," affecting workers and capitalists alike. This "national income tax," falling disproportionately on workers, would then be used to finance a government-run health insurance program, public child care and free education.

The authors write:

> The good news is that we can fix tax injustice, right now. There is nothing inherent in globalization that destroys our ability to tax big companies and the wealthy. The choice is ours…
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> When it comes to the future of taxation, everything is possible. From the disappearance of the income tax—a plausible outcome if the trend of the last four decades is sustained—to levels of progressivity never seen before, there is an infinity of possible futures ahead of us.

But this "infinity of possible futures" does not include the overthrow of capitalism. Saez and Zucman argue on the basis of a premise which they never state, much less seek to defend: that private ownership of the means of production should be continued and maintained.

They want to treat the symptom (inequality) of the disease (capitalism) without attempting to argue against those who say that the symptom cannot be treated outside of eradicating the disease.

The word “capitalism” appears only twice throughout the book. This is not surprising, because the volume treats the capitalist socioeconomic order as effectively the fixed basis of analysis.

Saez and Zucman never attempt to answer the most important question: What happens when the wealthy resist paying more in taxes? What *political* means are required to end inequality?

The unstated premise is that this change can be carried out through the Democratic Party, including candidates such as Elizabeth Warren and Bernie Sanders who advocate policies similar to those of the authors.

But since Saez and Zucman don’t argue for this course of action, they don’t have to deal with the myriad problems that arise from it. How will the Democrats, the party that first cut taxes on the rich (under Johnson) and presided over the deregulation of Wall Street (under Clinton), then bailed out the banks (Obama), be made into the instrument of, as the authors call it, “confiscatory” taxation?

Within the book’s analytical framework, if governments reduced taxes on the rich, it was because opinions changed. If opinions can be changed back, then governments can undo the policies that led to the growth of inequality.

Except, there must have been some *reason* that opinions changed. Saez and Zucman do not attempt to root the phenomenal processes they discuss in broader historical changes.

What, after all, is the relationship between the fact that the 20th century was viewed as the so-called “American century,” based on American global economic hegemony, and the socially redistributive character of the New Deal, as well as the “confiscatory” tax policy of Roosevelt and Eisenhower? Leon Trotsky did not beat around the bush when he declared, “America’s wealth permits Roosevelt his experiments.”

The fact is that a return to the New Deal is simply not possible. The financial oligarchy would fight such a plan tooth and nail. There is no wing of the ruling elite, as there was in Roosevelt’s day, which argues that US capitalism should reduce social inequality to head off revolution.

There is, of course, is an enormous constituency for social redistribution: the working class. But its struggles will be animated in the coming period not by a desire to put patches on capitalism, but to do away with it altogether.

Regardless of these criticisms, WSWS readers should read this book for its valuable documentation and analysis of social inequality and the explanation of the role that tax policy has played in its growth.