Biden’s Modest Tax Plan

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David Leonhardt, *The New York Times*, May 4, 2021

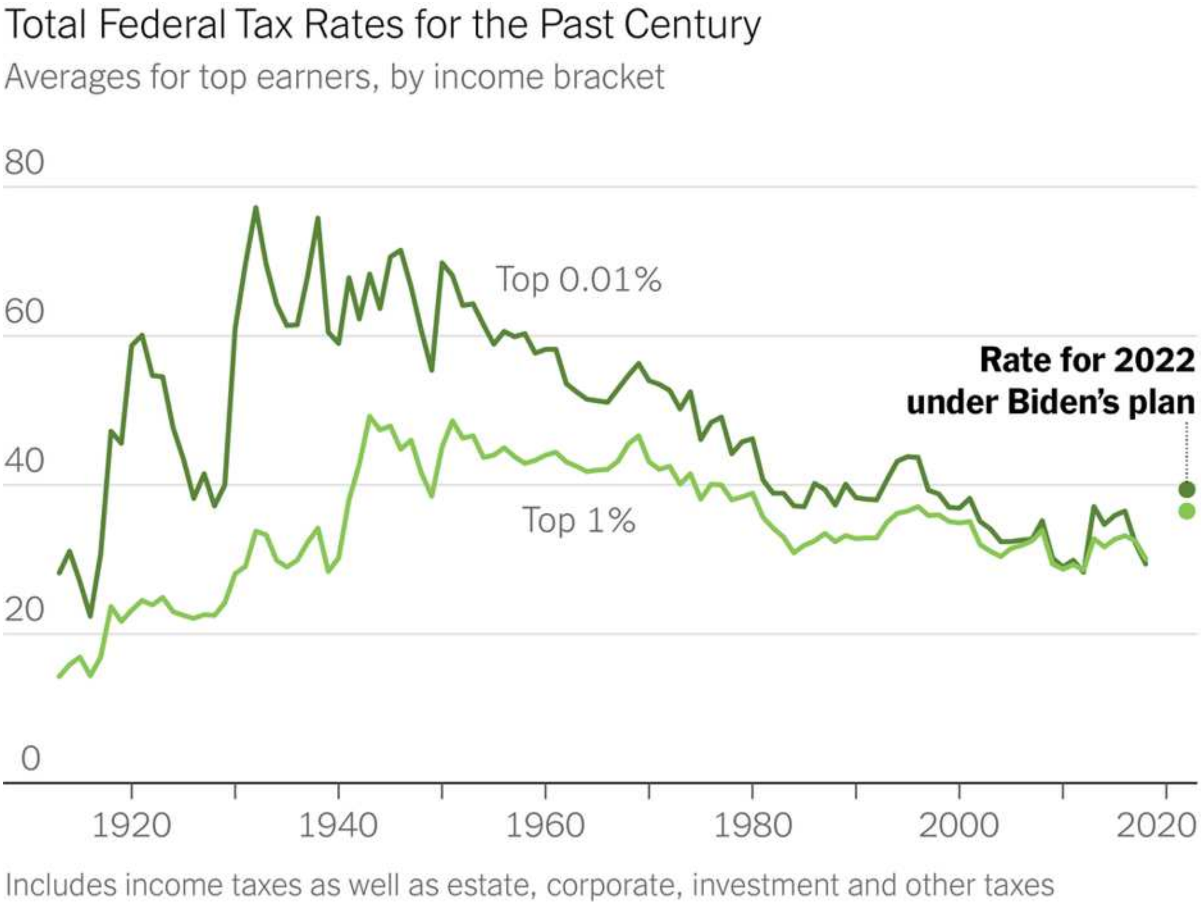
Business lobbyists and conservative think tanks are not big fans of President Biden’s proposed tax increases on the wealthy.

The Tax Foundation has said that Biden wants to raise the capital gains tax to “highs not seen since the 1920s.” Suzanne Clark of the U.S. Chamber of Commerce called the same plan “outrageous.” Jay Timmons of the National Association of Manufacturers called the proposed increase in the corporate tax rate “archaic.” And Brendan Bechtel, the chief executive of the construction company that bears his family name, said that “it doesn’t feel fair.”

All of this rhetoric has obscured a basic fact about Biden’s tax plan: It would not actually raise tax rates on the rich to high levels, historically speaking.

If all of Biden’s proposed tax increases passed — on the corporate tax, as well as on investment taxes and income taxes for top earners — the total federal tax rate on the wealthy would remain significantly lower than it was in the 1940s, ’50s and ’60s. It would also remain somewhat lower than during the mid-1990s, based on an analysis that Gabriel Zucman of the University of California, Berkeley, did for The Morning.

This chart shows the total federal rate for both the top 0.01 percent of earners (who currently make about $28 million a year on average) and the top 1 percent of earners (who make $1.4 million on average):



Credit...By The New York Times | Source: Gabriel Zucman of the University of California, Berkeley

Tax hikes and economic booms

The data is a reminder of just how far taxes on the wealthy have fallen over the past 70 years. In the decades just after World War II, many corporations paid about half of their profits in federal taxes. (Shareholders, who are disproportionately affluent, effectively pay those taxes). Today, corporate taxes are only about one-fourth as large, as a share of G.D.P., as they were in the 1950s and '60s.

The declines are not all ancient history, either. For most of the past quarter-century, taxes on the affluent have continued falling, including the rates on corporate profits, personal income, stock dividends, stock holdings and inheritances. Barack Obama reversed some of the declines, but only some. "The net effect over the past 25 years of federal income tax policy has been to reduce the overall revenue collected from top earners," Owen Zidar, a Princeton University economist, told me.

Whether you like Biden's plan or dislike it, it is not radical. For that reason, it is highly unlikely to have the harmful effects on economic growth that its critics are claiming. Remember: In the 1990s, the last time tax rates were as high as the ones Biden has proposed, the economy boomed. It also grew rapidly after World War II, when tax rates were higher yet.

History suggests that tax rates on the wealthy are not the main determinant of economic growth (and, if anything, higher taxes on the rich can sometimes lift growth). The main effect of Biden’s tax plan probably won’t be on the level of G.D.P. It will instead be on the relative tax burden that wealthy people pay. When they criticize the plan as unfair, archaic and outrageous, they are really saying that they enjoy paying low tax rates.