

Soak or swim

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Taxes and growth

- Does raising taxes on those who are doing well economically stifle growth and slow down recovery?
- That depends on how rich people behave when their taxes rise
- Do they move their money offshore?
- Do they take a large share of their earnings in forms that are more lightly taxed?

Tax reduction

- Martin Feldstein studies US tax reduction in 1986 from 50% to 28%: tax revenues stayed the same
- Implication: raising top tax rates is likely to produce little extra revenue while distorting economic behavior further (work less and more deadweight loss)

US tax rise in 1993

- There was a big fall in taxable income after tax rates rose in 1993
- But most of this seems to have come from a few rich people hurrying to cash in their stock options before taxes rose

tax system

- Piketty, Saez, and Stantcheva argues that this is a symptom of a poorly designed tax system
- “It is silly to have a high tax rate while simultaneously giving people many ways to avoid paying it.”

Tax reform

- Piketty, Saez, and Stantcheva: if tax system were reformed to make evasion impossible, the top tax rate might be able to rise to as much as 83% without hurting the economy
- this is because people do not seem greatly to adjust how much they work when tax rates change

Remove the loopholes

- All that remains is to remove the loopholes
- On past experience, America's rich need not lose sleep over that