

## Taxing the Rich and reducing inequality

Sept 21, 2022

Summary All numbers are in Real 2018 dollars, adjusted for population growth.

Economic inequality is increasing in the US. On the Gini index, 100 represents complete inequality. The US in 2018 ranked 40, equal to Turkey - an increase from 34 in 1970 and the fifth highest out of 44 OECD countries. The poverty rate is the ratio of people whose income is below half the median household income. Of 44 countries, the US is third highest at 18%.

Returning the top individual federal tax rate on labor for the top one per cent of earners from the current 37% back to 70% as it was in 1975 and sharing the revenue with the lower 99 per cent would reduce the trend. The highest tax is for income above \$600,000/yr., approximately the top one per cent of incomes. We discuss labor income taxes to explain the concepts, bearing in mind that more taxes could be raised, since half the income of the top one per cent is capital gains such as from the stock market with a lower tax rate of 20%, formerly 35% in 1975. Unless these concepts are understood, including reducing taxes for most voters, little is to be gained politically by talking about taxing “billionaires”.

From 1947 to 1975, America created a large middle class, earnings of workers doubling with the economy during what Robert Reich calls the Great Prosperity. The top Federal tax rate ranged from 91% to 70%. The pre-tax income of the top one per cent rose by 37% and that of the median earner by 88% including social security, public assistance and pensions. Productivity grew rapidly. The annual growth rate in per capita GDP from 1947 to 1975 averaged 2.2%. Then the situation changed.

From 1975 to 2018, the income of the top one per cent rose from 9% to 22% of the Total National Income - while remaining at 10% in Europe, Canada and Japan - and that of the lower 50 per cent of earners fell from 20% to 12.5 %. Top CEOs were paid 300 times the average wage compared to 30 times during the great prosperity. That is the right of private business. The top federal income tax fell from 70% to 37%, which is the business of Congress. The average 2018 after-tax income of the top one per cent grew to five times that of 1975, while the median income grew by 28%. The ratio of the per capita after-tax income of the top one per cent to the lower 50 per cent rose from 15 to 53.

The annual growth rate in per capita GDP fell to 1.8%. In June 1956, with a 91% top tax rate, President Eisenhower signed legislation funding the construction of the U.S. Interstate Highway System. In 2021, politicians argued for months over whether inflation would result from borrowing money to repair the infrastructure.

For the tax range discussed above, the claims that lowering top individual taxes spurs the economy or that increasing taxes stifles incentive is not supported by the historical record. In the case of the wealthy, only 80 percent of income is spent, some of it abroad. The rest is saved. Demand can be increased more effectively by reducing taxes on Lower-Class consumers, who spend close to 100 percent of any extra income in the local economy, with a multiplicative effect, as taught by John Maynard Keynes.

Fifty years ago, a typical GM worker earned \$35 an hour. By 2014, Walmart, America's largest employer paid an average of \$12 an hour. Between 2000 and 2012 the US slipped from 17th to 28th out of 65 countries in scholastic tests of 15-year-olds, the U.S being one of 3 countries that does not put more money per pupil into poor communities. Social mobility fell below that in traditionally class-bound Europe. Inter-generational reproduction (*essentially doing the same job as your parents*) is lowest in the Nordic countries and highest in the US. The proportion of college degrees earned by the lower 50 per cent stagnated at 10-20 per cent in 1970-2010, while it rose from 40 to 80 per cent for families in the top quartile. By 2011 the average annual cost at a public university was 50% greater than the income of the bottom 20 per cent of families. The salary of primary and secondary teachers in the US in 2014 was 69% of the salary of the average person with a tertiary education such as a diploma, compared to a ratio of 85% in the OECD.

Unions in the US have declined from 20% of workers in 1980 to 6% in 2022. This has contributed to a political vacuum.

The US spent 7% of its GDP on health care in 1971 and 18% in 2017 compared to 9 % average for 35 countries in the OECD. The health outcomes are generally no better. The US health care system is inefficient. In Singapore, where the cost is 6% of GDP, the Ministry of Health makes available on its website hospitals' bills for common illnesses and treatments. A person can shop for a lower price – the essence of capitalism. In the US, insurers' overhead costs, with 500,000 employees, average 12 percent of premiums compared to 3 per cent for government insurance such as Medicaid and Medicare. In 2016, excess administration alone cost 1.1% of the GDP. PPOs and HMOs created a complexity of billing unlike countries with a centralized system.

Several changes have been proposed by Thomas Piketty of the Paris School of Economic, JE Stiglitz, Nobel prize winner at Columbia University and Robert Reich, former Labor Secretary, to amend laws which favor growing inequality in labor and capital (wealth). According to Piketty, the optimal top individual tax rate in developed countries is over 80 per cent. Other suggestions are; a reduction in corporate welfare such as below-cost drilling rights, separation of investment banking from commercial banking, restrictions on liquidity, reduced tax loopholes, reduced costs in Medicaid, reform of bankruptcy and campaign finance laws and getting rid of too-big-to-fail companies (bailed out in the 2008 Great Recession).

Returning the top federal labor income tax rate to 70% as in 1975 would raise \$2.53 trillion over 10 years. For the top one per cent the increase in their after-tax income since 1975 would fall from 404% to 333%. If this money was shared equally by the lower 99 per cent of earners (roughly with an income below \$540,000/yr., the annual tax reduction per taxpayer would be \$1,769. The gain in after-tax income since 1975 for the lower 50 per cent would increase from the current 30% to 40%. The ratio of the average after-tax income of the top one per cent to the lower 50 per cent would fall from 53 to 45, still three times the 1975 ratio of 15. So, the growth of inequality is reduced slightly. Higher tax rates could be considered but the tax increase discussed above is politically an easier first step.

Ref 1. A review of the US Health Care System and Recommendations for Change by John McDonald, July 2018, [www.jmccott.com](http://www.jmccott.com)

Ref 2 Taxing the Rich and Reducing Inequality. By John McDonald, [www.jmccott.com](http://www.jmccott.com) (September 2022).

John McDonald

**History of income and taxation in the US** Income inequality has been growing fast in the U.S. In 2019 according to the Census<sup>1</sup> 34 million Americans live in poverty. Inequality is measured by the Gini Index. Zero represents complete equality and 100 or 1 complete inequality. 159 countries are ranked by the World Bank<sup>2</sup> and some are shown in Table 1. Income distribution by Gini Index from 1990-2020 is shown in Figure 1A from Statista<sup>3</sup> and increased from 0.43 to 0.49 on a scale of 0 to 1.

Table 1 World inequality\* Scale 0 to 100

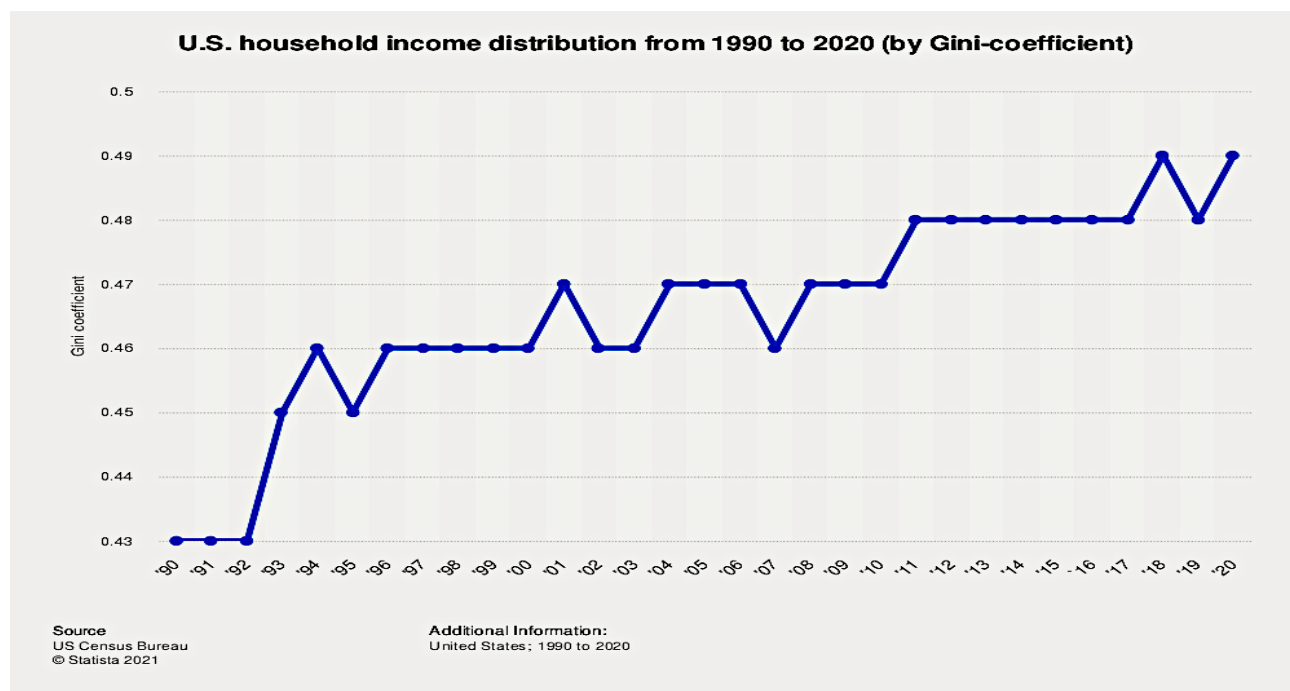
Country	Gini Index	Note
Ukraine, Czech. Rep, Slovenia	25-26	<b>Lowest inequality of 159 countries,</b>
Belgium , Norway, Netherlands, Denmark, Iceland, Finland, Sweden	27-29	
Germany, Japan, Korea , Austria, UK, France	31-33	
Canada, Italy	34-35	
Australia, Greece, Spain, India, Portugal	36	
Indonesia, China, Israel	38-39	
Argentina	41	
<b>US, Turkey</b>	<b>42</b>	
Peru, Nigeria	43	
Phillipines	44	
Ecuador	35	
Chile	47	
Mexico	48	
South Africa	63	<b>Highest inequality of 159 countries</b>

\*The year varies for each country over the range 1998-2017

Figure 1A Income distribution in the US 1990-2020

<sup>1</sup> Income and Poverty in the United States: 2019 SEPTEMBER 15, 2020 REPORT NUMBER P60-270  
JESSICA SEMEGA, MELISSA KOLLAR, EMILY A. SHRIDER, AND JOHN CREAMER

<sup>2</sup> Gini Index World Bank Estimate, country ranking. Giniindex.com



Inequality of disposable income is greater in the US than in all OECD countries except Mexico and Chile. For 2016 the average for the 36 OECD countries was 0.32 and for the US was 0.40 (an increase from 0.32 in 1970).

For three decades after World War II, America created the largest middle class the world has seen, the earnings of the American worker doubling as the economy doubled during what Robert Reich the former Labor Secretary calls the Great Prosperity<sup>4</sup>. But since 1980 the take-home income after federal taxes for the **median** family has increased little while the share of income of the top one percent has increased from 9% of the GDP to more than 20 percent, while remaining at 10% in most European countries and Japan. The top tax rate in the U.S. has fallen from 70% in 1975 to below 37% today. The multiplicative effect of these two factors is examined in this paper. By 2007, according to Reich, just before the Great Recession, the wealthiest 1 per cent got 23.5 percent of our total income.<sup>5</sup> Top managers are now paid 300 times the wage of the average worker compared to 40 times in 1975. According to a New York Times/ CBS poll, 69 per cent of Americans support the rich paying more taxes.

The history of top personal income tax rates from 1913 to 2021 is shown in Figure 1B as reported by the Bradford Tax Institute<sup>6</sup>. The Tx Foundation indicates that the 2018 maximum tax rate was 37% not 40% suggested by Figure 1B.

Figure 1B Top Federal Tax Rates 1913-2021

<sup>4</sup> After-Shock by Robert B. Reich Published by Alfred A. Knopf 2010

<sup>5</sup> Beyond outrage. Robert Reich Vintage books 2012

<sup>6</sup> History of Federal Income Tax Rates: 1913 – 2021 Bradford Tax Institute

## Top Federal Tax Rates



In the last 100 years, during which the marginal tax rate in the US varied from 15 percent to 91 percent there is no evidence that lowering the marginal tax rate below the current 35 percent would increase per capita output growth, or that a rate as high as 80 percent would decrease the growth rate. According to Picketty, the reduction of top marginal income tax rates and the rise of top incomes do not seem to have stimulated productivity contrary to the predictions of supply side theory or at any rate did not stimulate productivity to be statistically detectable at the macro level.” Robert Reich states that according to a New York Times/ CBS poll, 69 per cent of Americans support the rich paying more taxes.

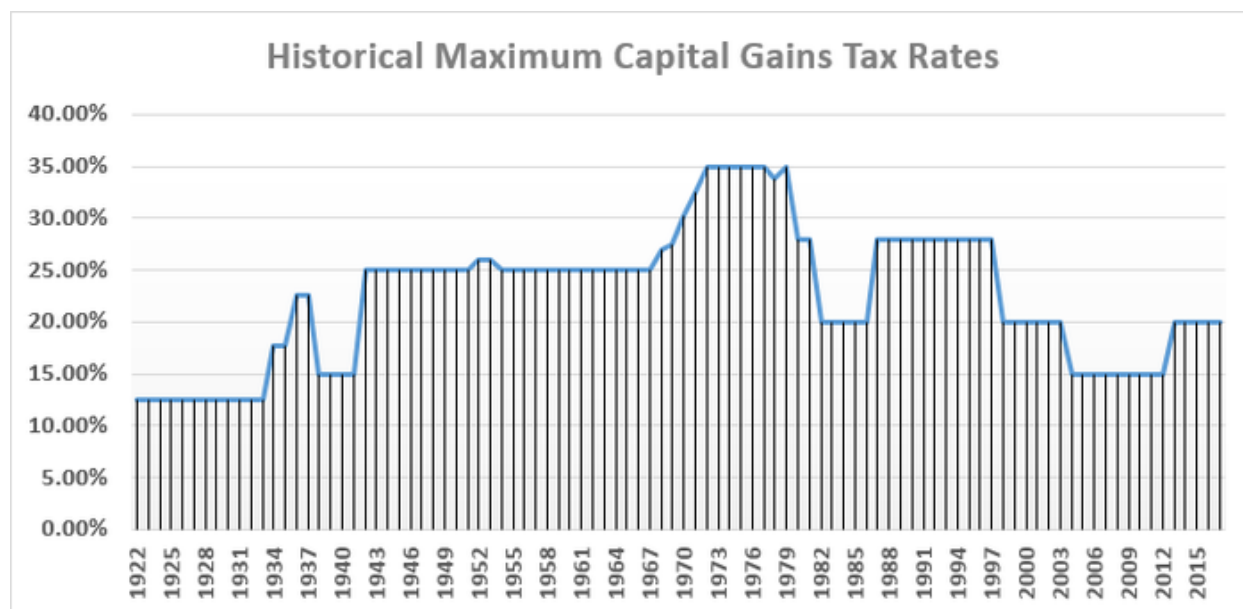
According to Thomas Picketty<sup>7</sup>, of the Paris School of Economics, the total national income (TNI) of the United States is the sum of the labor income (the flow return to human capital) and capital income (the flow return to non-human capital—that accrues to U.S. resident individuals.) The GDP however measures the total production of goods and services within the borders of a country. To calculate TNI one must subtract depreciation of the capital that makes this production possible, typically 10 percent of the GDP. For the top one percent of incomes the fraction of **income from labor is 63%** and **from capital is 37%**. **Half of capital income (18.5% of total income) is from rents, interest and dividends which are taxable in the same manner as labor income and the other half (also 18.5%) capital gains (e.g. from stock sales) which are taxed at a lower level.** Capital gains tax rates are shown in Figure 2 from the Motley Fool<sup>8</sup>. The rates were 25% in 1947, 35% in 1975 and 20% in 2015. Current law includes a 20% tax on investments held for more than a year, known as a “long-term capital gains” tax. It also

<sup>7</sup> National Bureau of Economic Research, DISTRIBUTIONAL NATIONAL ACCOUNTS: METHODS AND ESTIMATES FOR THE UNITED STATES  
Thomas Piketty Emmanuel Saez Gabriel Zucman

<sup>8</sup> A 95-Year History of Maximum Capital Gains Tax Rates in 1 Chart The Motley Fool Sean Williams 2017

includes an extra 3.8% tax on investments for high earners that's been around since 2013 to help pay for the Affordable Care Act, a total of 23.8%..

Figure 2 Historical Capital Gains Tax Rate (from The Motley Fool)



DATA SOURCE: WOLTERS KLUWER TAX & ACCOUNTING.

Figure 3 from Picketty shows the **average incomes** of the top 1 percent and lower 50 percent of the US population from 1960 to 2015 before taxation.<sup>9</sup> The figure states an average income for the top one per cent in 2015 of \$1.305 million. We assume this is based on income tax returns not per capita of the population. From 1960 to 1975, in terms of 2015 dollars the average before tax income of the top one per cent rose from \$350K to \$400K an increase of 14% and that of the lower 50% from \$11K to 15K, an increase of 36%. **Using a conversion factor of 1.06 from 2015 to 2018, in terms of 2018 dollars the average before tax income of the top one per cent from 1960 to 1975 rose from \$371K to \$424K an increase of 14% and that of the lower 50% from \$11.7K to 15.9K, an increase of 36%.**

In 1970 the income of the poorest 50% was \$15,200 and that of the richest one per cent \$403,000 for a ratio of 26. In 2015 the average income of the poorest 50% was \$16,200 and that of the top one per cent \$1.305 million for a ratio of 81. According to Picketty, Saez and Zucman,<sup>10</sup> the bottom half of the income distribution in the US has been completely shut off from economic growth since the 1970s. From 1980 to 2014, the average national income per adult grew by 61% in the US, yet the average pre-tax income of the bottom 50% stagnated at about \$16,000 as in Fig. 3 after adjusting for inflation. In contrast, income rose 121% for the top 10%, 205% for the

<sup>9</sup> Thomas Picketty Capital and Ideology Belknap Press 2020

<sup>10</sup> Economic growth in the US: A tale of two countries Thomas Picketty, Emmanuel Saez, Gabriel Zucman 29 March 2017 CEPR

top 1%. Until 1980, the average income of the top centile was on the order of 25 times the average income of the bottom 50%. In 2015 the ratio was 80. (Piketty p 525).

Figure 3 Average income of top 1% and lower 50 % 1960-2015 before taxes and transfers (such as food stamps) in 2015 dollars

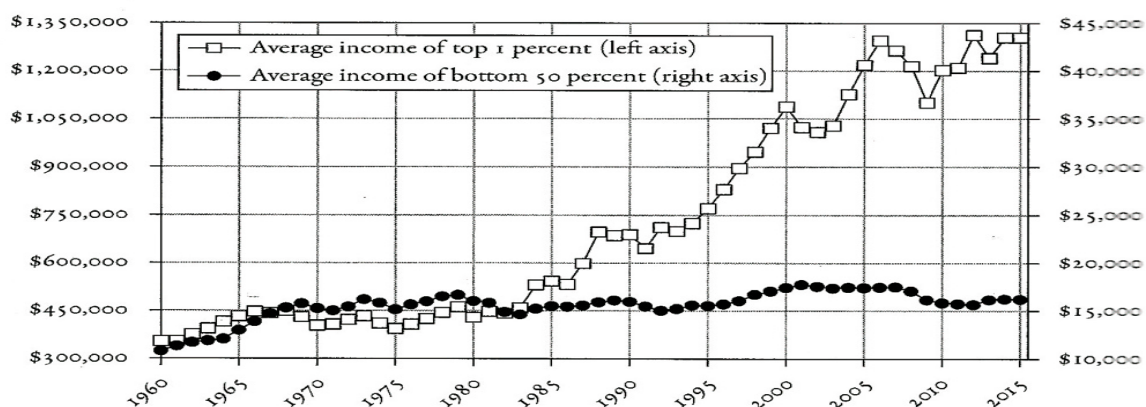


FIG. 11.7. Low and high incomes in the United States, 1960–2015

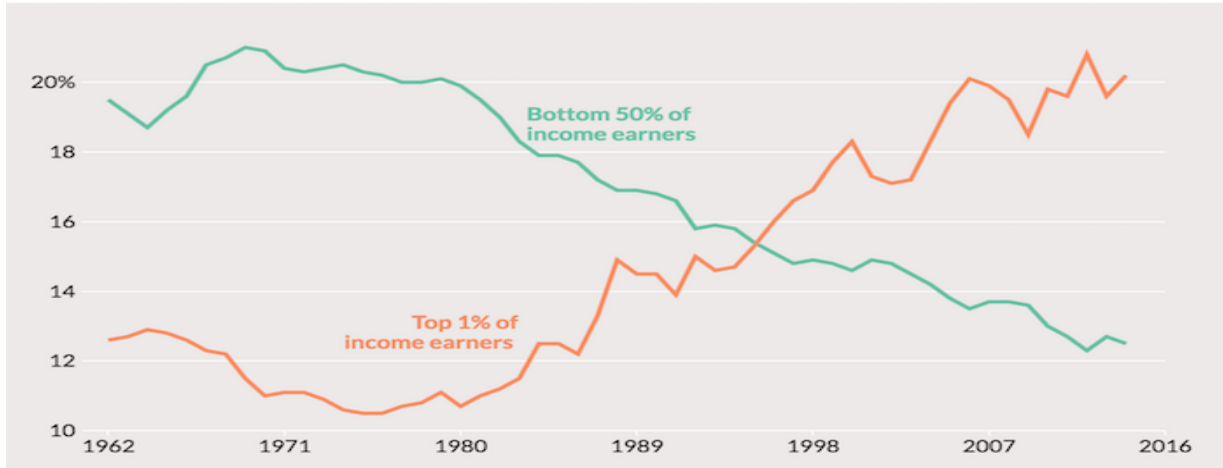
*Interpretation:* In 1970, the average income of the poorest 50 percent was \$15,200 per year per adult, and that of the richest 1 percent was \$403,000, for a ratio of 1 to 26. In 2015, the average income of the poorest 50 percent was \$16,200 and that of the richest 1 percent was \$1,305,000, for a ratio of 1 to 81. All amounts are in 2015 dollars. *Sources and series:* [piketty.pse.ens.fr/ideology](http://piketty.pse.ens.fr/ideology).

Figure 4 from Picketty shows the total income **share** of the top one per cent and the lower 50% in the US from 1962 – 2015. For the top one per cent the income rose from 12.5% in 1961 to 20% in 2015. For the lower 50 per cent it fell from 19% to 12.5%.

Figure 4

### A tale of two countries

The share of U.S. pre-tax income accruing to the bottom 50 percent and top one percent of income earners, 1962-2014



Source: Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States," 2016, Cambridge, MA: National Bureau of Economic Research  
 Note: The unit is the individual adult and incomes within married couples are split equally.



The percent of national income of the top one percent for the years 1910 to 2010 is shown in Figure 5<sup>11</sup> by Piketty with and without capital gains.

Figure 5 Top one percent income share with and without and capital gains

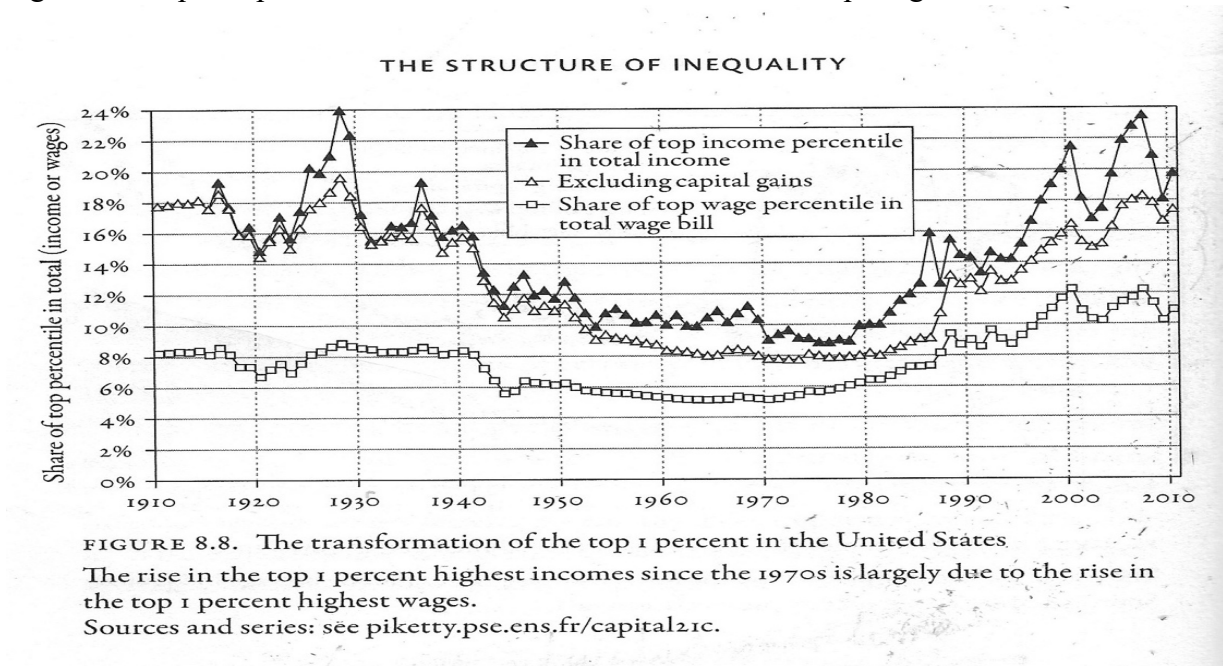


FIGURE 8.8. The transformation of the top 1 percent in the United States  
 The rise in the top 1 percent highest incomes since the 1970s is largely due to the rise in the top 1 percent highest wages.  
 Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

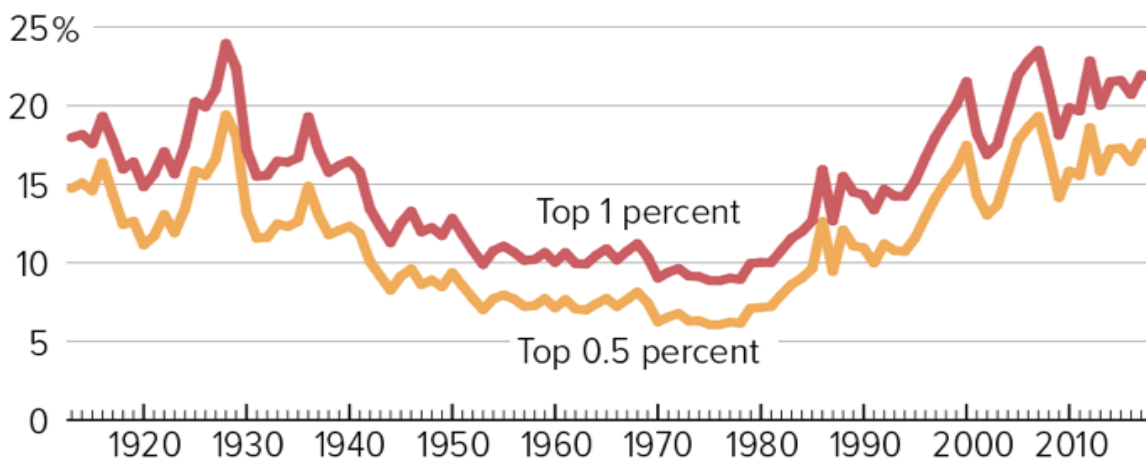
<sup>11</sup> Thomas Piketty Capital in the 21<sup>st</sup> Century Fig 8.8

Figure 6 by Stone et al shows the national income share of the top one percent in the US from 1910 to 2020<sup>12</sup>. In 2020 it reached 22 % of the national income.

Figure 6

## Income Concentration at the Top Has Risen Sharply Since the 1970s

Share of total before-tax income flowing to the highest income households (including capital gains), 1913-2018



Source: Emmanuel Saez, based on IRS data

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

<sup>12</sup> A guide to Statistics on historical trends in income inequality. Center on Budget and Policy Promotion Jan 13, 2020 Stone, Trisi, Beltram, Sherman and Beltran

### The Great Prosperity (1947-1975)

During the Great Prosperity from 1947-1975, the share of income that went to the middle class grew while the income share of the top one percent fell from 12 per cent to 9 per cent of total income as in Figure 6. The top tax rate ranged from 91% under President Eisenhower to 70% in 1975. According to Reich<sup>13</sup> (page 43), productivity grew rapidly during the great prosperity defying the predictions of those who said inequality was necessary for rapid growth because top executives needed the incentive of outsized earnings. From the Bureau of the Census<sup>14</sup> the **median** total income before taxes for a family with one wage owner rose from \$16,079 in 1947 to \$30,167 in 1975 in 1988 dollars, a gain of 88%. This included social security, public assistance and pensions (Table B in reference).

According to The Balance<sup>15</sup> the per capita Real GDP (adjusted for inflation) from 1947-2019 was as in Table 4. As explained above, the Total National Income TNI is 90% of the GDP. The income of the **top one percent** rose 37% between 1947 and 1975 and over 400% between 1975 and 2015. The average income rose 82% between 1947 and 1975 and 96% from 1975 to 2015.

**Table 4 Top one percent income based on GDP 1947-2019**

Year	Per capita GDP in 2012 dollars	Per capita Income 90%GDP A	% GDP earned by top 1% Fig 6 B	Top 1% per capita average income 2012\$ Thousand before tax A x B C	Column C in 2018\$
1947	14,203	12,783	12	153	167
1975	25,789	23,210	9	209	228
2015	53,983	48,585	22	1,069	See later
2018	56,503	50,853	22	1,119	“ “
2019	57,719	51,947	22	1,143	“ “
Ref	The Balance				

**In summary** After adjusting for inflation, during the Great Prosperity from 1947 to 1975 the per capita personal income before taxes of the top one per cent rose by 37% from \$167K to \$228K in 2018 dollars (Table 4). The pre-tax median income rose by 88% which included social security public assistance and pensions. The income of the top one per cent fell from 12% to 9% of the national income (Fig 6). From 1960 to 1975, in 2018 dollars the average before tax income of the top one per cent based on the number of tax returns rose from \$371K to \$424K an increase of 14% and that of the lower 50% from \$11.7K to 15.9K, an increase of 36%. (discussion above Figure 3, by Picketty)

<sup>13</sup> After-Shock by Robert B Reich 2010. Taken from Picketty and Saez

<sup>14</sup> Trends in Income by selected characteristics 1947-1988 (Series P60 No167) Bureau of the census Mary F Henson April 1990. Table 11 for median family income.

<sup>15</sup> Real GDP Per Capita, How to Calculate It, and Data Since 1947 TheBalance.com Sept 2020

## The Post Great Prosperity Period 1975-2015

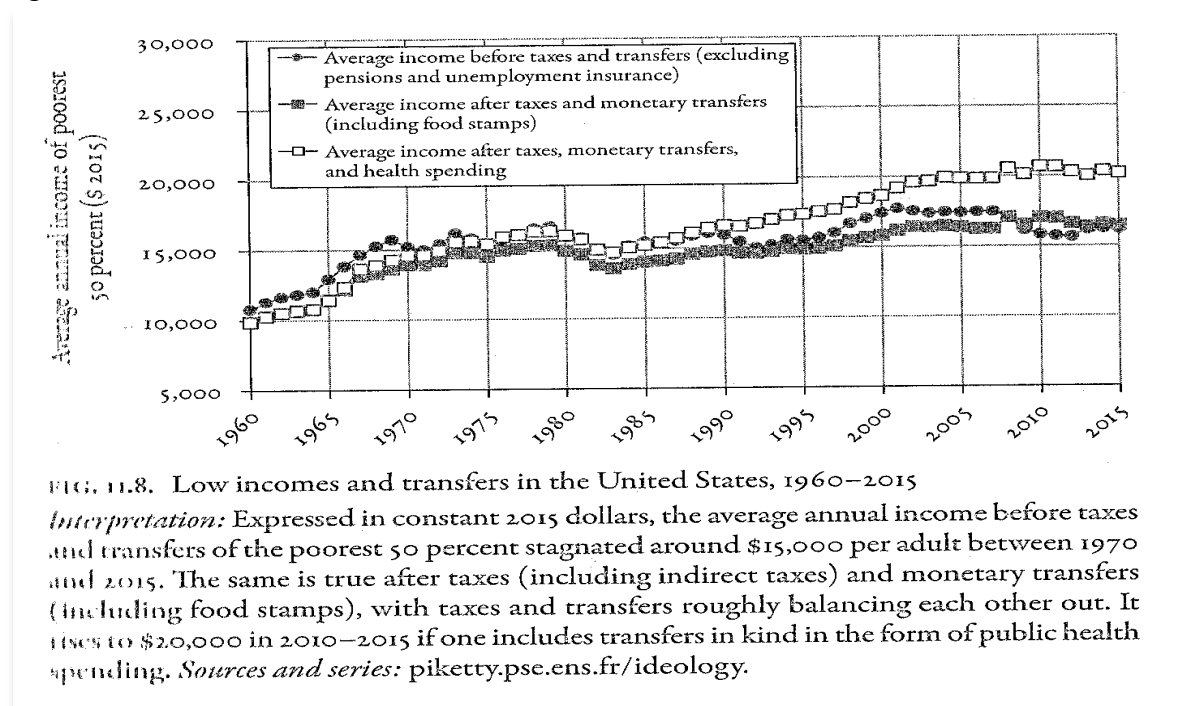
A) According to **Statista**<sup>16</sup> the total personal income in the United States from 1990 to 2020 based on the BEA (Bureau of Economic Analysis), is the income that is received by persons from all sources and is the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance. As in Table 5 the Total Income is 0.87 times GDP. In Table 4 we used the factor 90% as recommended by Picketty.

**Table 5 Nominal (not adjusted for inflation) GDP and Total Income for the US 2016-2019 Ref. Statista**

Year	GDP	Personal Income (PI)	PI/GDP	
2018	20611	17839	0.87	

B) Figure 7 below from **Picketty** shows the average annual income of the **poorest 50%** in the US from 1960-2015. The top curve shows that from 1975 to 2015 the average income before taxes and monetary transfers such as food stamps stayed around 15,000-16,000 dollars with no growth. The income after taxes and monetary transfers rose from \$15,000 to \$17,000 a growth of 13%. Including health spending the rise from 1975-2015 was \$16,000 to \$20,000, a growth of 25%. (See Picketty p 528)

Figure 7 Lowest 50% income and transfers 1960-2015



<sup>16</sup> Personal income in the United States from 1990 to 2020 (in billion U.S. dollars) Statista

As in Figure 6 the income share of the **top one per cent** during the post great prosperity rose from 10 per cent to 22 per cent. As in Fig 4 the share of the **lower 50%** fell from 20% to 12%. The top income tax rates fell as in Figure 1B from 70% in 1975 to approximately 40% in 2015. As in Figure 3 the income of the top one percent in constant 2015 dollars before taxes increased by 225% from \$400,000 in 1975 to \$1.3Million in 2015. According to Picketty (Capital and Ideology) the annual growth of per capita national income fell from 2.2 per cent from 1950 – 1990 to 1.1 per cent from 1990 to 2010 as the top income tax rate fell from 72 per cent to 35 per cent. This is shown in Figure 8 below.

Figure 8 Growth and progressive taxation in the US 1870-2020

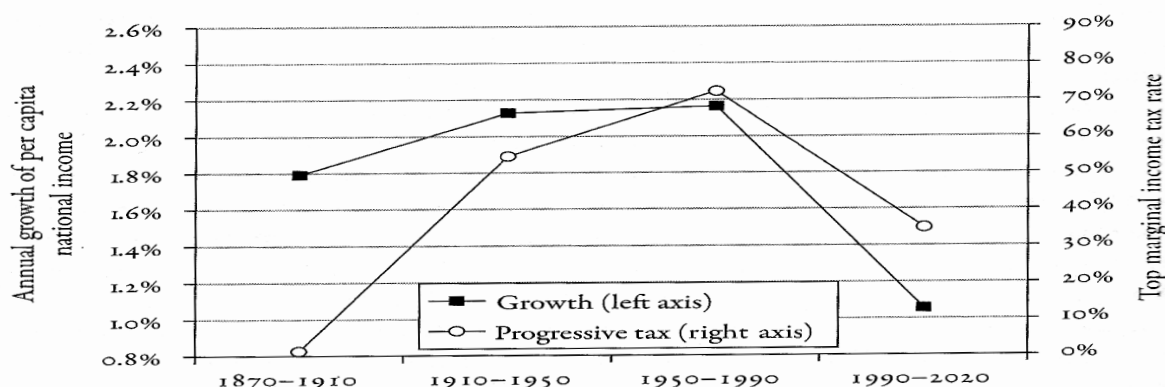


FIG. II.13. Growth and progressive taxation in the United States, 1870-2020

*Interpretation:* In the United States, annual growth of per capita national income fell from 2.2 percent from 1950 to 1990 to 1.1 percent from 1990 to 2020, whereas the top marginal income tax rate fell in the same period from 72 percent to 35 percent. *Sources and series:* [piketty.pse.ens.fr/ideology](http://piketty.pse.ens.fr/ideology).

C) According to the **Tax Foundation**<sup>17</sup> the Adjusted gross income and taxes paid for income groups for 2018 is in Table 6. Adjusted Gross Income (AGI) is defined as gross income minus adjustments to income. Gross income includes your wages, dividends, capital gains, business income, retirement distributions as well as other income. Adjustments to Income include such items as Educator expenses, Student loan interest, Alimony payments or contributions to a retirement account. Your AGI will never be more than your Gross Total Income on your return and may be lower.

Table 6 Tax Foundation income data for 2018 based on AGI (income after credits)

	Top 1%	Top 5%	Top 10%	Top 25%	Top 50%	Bottom 50%	All Taxpayers
<b>Number of Returns</b>	1,443,179	7,215,893	14,431,787	36,079,467	72,158,933	72,158,933	144,317,866
<b>Adjusted Gross Income (\$ millions)</b>	\$2,420,025	\$4,217,996	\$5,511,117	\$7,969,121	\$10,221,814	\$1,342,069	\$11,563,883
<b>Share of Total Adjusted Gross Income</b>	20.9%	36.5%	47.7%	68.9%	88.4%	11.6%	100.0%
<b>Income Taxes Paid (\$ millions)</b>	615,716	926,367	1,096,343	1,336,041	1,491,041	45,137	1,536,178
<b>Share of Total Income Taxes Paid</b>	40.1%	60.3%	71.4%	87.0%	97.1%	2.9%	100.0%
<b>Income Split Point</b>	540,009	217,913	151,935	87,044	43,614	43,614	
<b>Average Tax Rate</b>	25.4%	22.0%	19.9%	16.8%	14.6%	3.4%	13.3%
<b>Average Income Taxes Paid</b>	\$426,639	\$128,379	\$75,967	\$37,031	\$20,663	\$626	\$10,644

From Table 5 and Figure 6 the 2018 total income of the top one percent was **\$17,839** (GDP x 0.87) trillion x 22% (% TNI of top 1%) or \$3.92 trillion. Thus, **the average income of the 1.443 million top one per cent was \$2.72 million in 2018.** Additional information can be obtained from the IRS<sup>18</sup> which information agrees with Table 6. Thus, for 2018 Table 7 shows information for the top one percent and lower 50%, based on Tables 5, 6 and Figs 4,6.

Table 7 2018 tax information for the top one percent and lower 50% - \$trillions (2018)

Group	Total National Income \$Trill. NOT AGI (Table 5)	% TNI Figs 6 & 4	Income to each group \$Trill. A x B	AGI Table 6	AGI/Income	IRS total individual taxes trillions after credits Table 6	Share of national income taxes Table 6	Income taxes paid \$Trill. Table 6	income tax rate% based on AGI G/D	Tax rate based on total income G/C	AGI Income after tax \$trill C-G
	A	B	C	D		E	F	G	H	I	J
Top 1%	<b>17.84</b>	22	3.93	2.42	62%	1.536	40.1	0.616	25.5	<b>15.7</b>	3.314 19%TNI
Lower 50%		12.5	2.23	1.34	60%		2.9	0.045	3.3	2.0	2.185 12%TNI

The tax rate for the top one percent based on AGI is 25.5% for 2018. However, the rate based on total income is 15.7%. The AGI 2.42 \$T due to deductions is 62% of the total income of 3.93 \$T.

<sup>18</sup> Who pays income taxes Tax Foundation NTU.ORG

D) **The IRS** provides information<sup>19</sup> on taxes paid over past years. In Table 8A and 8B is information from **1986 to 2008** for the top one per cent and lower 50 per cent. No similar information was found for earlier years or later years. The source is referenced by the Tax Foundation discussed above.

Table 8A Tax of <b>top one percent</b> from IRS 1986-2018 based on AGI -nominal dollars (not inflation adjusted)												
year	Ref IRS*	No. of tax returns millions	Total AGI Strillion	AGI of top 1% \$billion	Top 1% share of AGI	Average AGI per return of top 1% C/A/100 \$K	Total national taxes \$billion	Total tax of top 1% \$billion	Tax per tax - return of 1% E/0.01A \$K	National average tax rate of US	Top 1% share of total tax % (E/D)	% tax rate of top 1% Based on AGI (E/C)
		A	B	C	C/B	H	D	E	J	D/B	G	K
1986	Table 5	102.1	2.524	285	11.3	279	367	94.5	92.6	14.5	25.8	33.1
2008	Table 4.1	132.9	8.206	1657	20.2	1,249	1029	385.8	290.3	12.5	37.5	23.3
2015	Table 4.1	141.2	10,143	2095	20.7	1,484	1454	567.7	401.9	14.3	39.0	27.1
2018	Table 4.1	144.3	11.563	2420	20.9	1,677	1536	615.7	426.7	13.3	40.1	25.4

\* SOI Bulletin article—Individual Income Tax Rates and Tax Shares, Table 5. (1986-2009). Table 4.1 2001-2019

Table 8B information from IRS 1986-2018 based on AGI -current dollars (not inflation adjusted) Lower 50 per cent group. Nominal dollars											
year	Ref IRS	No. of tax returns millions	Total AGI Strillion	AGI of group \$billion	AGI per return of group C/A/2 \$K	Total US taxes \$billion	tax of group \$billion	Tax per return of group E/0.5A \$	% tax average of US (D/B)	Group share of total tax % (E/D)	% tax rate of group Based on AGI (E/C)
		A	B	C	H	D	E	J	F	G	(E/C)
1986	Table 5	102.1	2.524	421	8.25	367	23.7	460	14.5	6.5	5.6
2018	Table 4.1	144.3	11.563	1341	18.6	1536	45	623	13.3	2.9	3.3

According to the Tax Foundation “In 2018, the bottom 50 percent of taxpayers (those with AGI below \$43,614) earned **11.6 percent** of total AGI. This group paid \$45.1 billion in taxes, or roughly 3 percent of all federal individual income taxes in 2018” agreeing with table 8B.

We noted above that **Figure 3 from Picketty states an average income for the top one per cent in 2015 of \$1.035 million.** Given an AGI of \$1.484 million for 2015 in Table 8A which is income minus deductions, the Picketty number is significantly lower.

**Taxes based on total income and AGI** We discuss these in the following section.

### 1) **Taxes based on total income**

Table 9 shows the actual total income of the **top one percent** in 1986 and 2008.

<sup>19</sup> [www.irs.gov/statistics/soi-tax-stats-individual-income-tax-rates-and-tax-shares-2001-2018](https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-rates-and-tax-shares-2001-2018). More complete from Tax Foundation ref. [1] Internal Revenue Service, *Statistics of Income*, “Number of Returns, Shares of AGI and Total Income Tax, AGI Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates,” Table 1, and “Number of Returns, Shares of AGI and Total Income Tax, and Average Tax Rates,” Table 2, <https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-rates-and-tax-shares>. Or better SOI Tax Stats - Individual Income Tax Rates and Tax Shares

year	GDP/cap <b>2012\$</b> Population based	GDP /Cap <b>Nominal</b> Not inflation adjusted	Pop mill.	Per Cap. National income \$K Nom.	TNI \$trill. <b>Total</b> <b>US</b>	% of TNI of top one percent	Income top1% \$trill. <b>nominal</b>	Effective tax rate (Income based)
	A	B	D	E	F	G	H	J
	<b>The Balance<sup>20</sup></b>	A-inflation Table 9A		** B x 0.9	D x E	Fig 6	F x G %	Table 8(E) /Table 9(H)
1986	<b>33972</b>	16321	240	14689	<b>3.53</b>	13	<b>0.459</b>	<b>20.6</b>
2008	<b>51637</b>	49351	304	44416	13.5	22	<b>2.97</b>	<b>13.2</b>

\*Inflation can be calculated from [bis.gov/inflation](http://bis.gov/inflation) calculator \*\*TNI=90% GDP - Picketty

year	1947	1975	1986	2008	2012	2015	2018	2021
Inflation 2018 based	11.53	4.76	2.26	1.17	1.09	1.06	1.00	1/1.09

Table 9B shows the per capita GDP in the US from the Federal Reserve.<sup>21</sup>

Table 9B GDP per capita in US (2012 dollars) Federal Reserve

Year (July)	2012 \$	TimePeriod	% growth
1947	14,018	1947-75	88
1975	26,294		
1986	34,316	1975-2018	117
2012	51,774		
2018	57,095	1986-2018	66

Comparing Table 9A and Table 9B, the inflation between 1986 and 2018 was 126% but the Real growth of per capita GDP adjusted for inflation was 66%.

Based on Total Income we have the Tax for the top 1% in Table 10. We have included data for 1975 which is discussed later in this report since it is not in the regular IRS computerized data but in a separate filed xeroxed copy in the base.

Table 10 Total income before and after tax for top 1%. 1975-2018

Year	<b>Total Income -based tax rate % (Tables 7 -I 9 -J)  B</b>	<b>Top 1% total Income (Nominal) \$Trillion Tables 9H, 7C  C</b>	<b>Nominal Tax \$Billion (Table 9 (H x J))  D</b>	<b>Total income after tax \$Trill Nominal C-D  E</b>	<b>Real after-tax TOTAL income 2018\$ Trill. E x H F</b>	<b>Real per capita income after tax \$mils F/ 0.01 K  J</b>	<b>Real income per Tax Return  F/(Table 8 A)  L</b>	<b>Top 1% Real before e- tax Inco me 2018 \$ Trill\$ G</b>	Infla tion facto r  H	Pop. Mil   K
1986	<b>20.6</b>	<b>0.459</b>	94.5	0.365	<b>0.825</b>	<b>0.343</b>	0.808	<b>1.04</b>	2.26	<b>240</b>

<sup>20</sup> The Balance "Annual US GDP per capita since 1947 in 2012 dollars". Kimberly Amadeo Sep 17, 2020

<sup>21</sup> Federal Reserve economic data Real GDP in chained 2012 dollars <http://fred.stlouisfed.org>

2008	13.2	2.97	386	2.584	<b>3.016</b>	<b>0.992</b>	2.269	3.47	1.17	304
2018	15.7	3.93	616	3.314	<b>3.314</b>	<b>1.013</b>	2.297	3.93	1.00	<b>327</b>
<b>TOTAL INCOME INCLUDES 38% of income not included in AGI</b>						<b>\$Mil Per Capita</b>	<b>Per Tax return</b>			
1975*									4.76	

- 1975 is discussed below in separate section not being part of IRS 1986-2018 database.
- 2) Taxes based on AGI income** AGI is adjusted gross income after deductions

Tables 11A and 11B show growth in after-tax income of the top one percent and lower 50 per cent based on AGI. Data is from Tables 8A,8B.

Table 11A After-tax **AGI -based income (per capita)** of top one per cent from 1986 to 2018

year	No of tax returns millions Table 8A G	<u>Nominal</u> AGI per return of top 1% \$K Table 8A (H) A	Tax per return of top 1% \$K Table 8A J <u>Nominal</u> B	Tax Rate B/A % E	After tax income <u>Nominal</u> \$K A-B C	After tax income based on <b>Real 2018 dollars</b> \$K <b>C x F</b> D	Total after tax income of 1% \$Bill D x 1% x G H	Inflation factor F
1986	102.1	279	92.6	33.2	186.4	<b>533</b>	544	2.260
2018	144.3	1,677	426.7	25.4	1250	<b>1250</b>	1804	1.000

Table 11B After-tax **AGI -based income per return** of lower 50% from 1986 to 2018

year	Nominal AGI per return of lower 50% \$K Table 8B (H) A	Tax per return of lower 50% \$ Table 8B J B	After tax income <b>Nominal</b> \$ A-B C	After-tax income based on <b>2018 dollars</b> \$K. C x E D	Inflation Factor E
1986	8.25	460	7790	17605	2.260
2018	18.6	623	17977	17977	1.000

The Census Bureau ([www.census.gov](http://www.census.gov)) collects income information. Table 11C shows for households the real income in 2020 dollars for each quintile for 1975 and 2018

Table 11C Census before-tax income data by quintile in \$2020.

Quintile	Upper limit of quintile	
	1975	2018
I Lowest 0-20	21,933	26,389
20-40	41,164	51,541
40-60	62,203	81,194
Estimate 40-50 (median) <b>2020 \$ upper limit (50)</b>	51,683 \$2020	66,168 \$2020
Estimate 40-50 (median) 2018 \$	48,582 \$2018	62,198 \$2018

Thus, the median income before taxes rose from \$51,683 to \$66,168 in 2020 dollars between 1975 and 2018. Using a 6% inflation from 2018 to 2020 this is approximately an increase in median income **before taxes** in 2018 dollars from \$48,582 in 1975 to \$62,198 in 2018, an increase of 28%.

Information on AGI income and tax prior to 1986 was not found in the computerized IRS database. The US treasury department however does give some information for example for 1975<sup>22</sup>. Table 15 in the Treasury Report shows the average income and tax rate for returns with income over \$200,000. Based on Expanded income the tax rate for 1975 was 30.2% and for AGI it was 42.5%. In comparison, for 1986 we determined a tax rate based on total income of 20.6% (table 9) and 33.2% based on AGI (table 11A). This is summarized in Table 11D

Table 11D tax rates based on total income and AGI for top one per cent

year	AGI% tax A	Total income % tax B	Ratio of AGI/total income B/A C	Max Tax Rate Fig 1B
1975	42.5 US Treasury Ref	30.2 US Treasury Ref.	71%	70
1986	33.2 Table 11A	20.6 Table 9	62%	50
2018	25.4 Table 11A (E)	15.7 Table 7 (I)	62%	40

**Now we gather information for 1975.** This information is from a xeroxed copy in the IRS database. Only 1986 and later is fully documented in computer tables. The nominal GDP was \$1.685 trillion. The real GDP with a 2012 anchor was \$5.646 trillion<sup>23</sup>. The inflation factor from 2012 to 2018 was 1.09 (Table 9A). Thus the 1975 real GDP with a 2018 anchor is \$5.646 x 1.09 or \$6.154 trillion. Again, we assume with Picketty that the TNI was 90% of the GDP or \$5.539 trillion in 2018 dollars. As in figure 6, the top one per cent share of national income was 9% in **1975 or \$0.498 trillion in 2018 dollars**. This compares to \$1.04 trillion in 2018 dollars for 1986 as in Table 10 (G). As in Table 11D (C), 71% of the total income of the top one per cent was AGI. Thus the 1975 AGI for the top one per cent was 0.354 trillion. With an AGI tax of 42.5% as in Table 11D (Col.A). the after tax amount was \$0.2036 trillion in 2018 dollars (column 7). The total tax returns were 82.2 million of which 822,000 were the top one per cent. Thus the after tax amount per return was \$248,000 in 2018 dollars. We now include the 1975 data in our results in Table 11A which is expanded below as Table 12.

<sup>22</sup> Office of tax analysis US Treasury. High Income Tax Returns 1975 and 1976. Aug 1978

<sup>23</sup> The Balance US GDP by year compared to Recessions and Events. April 28, 2021

Table 12 IRS-based after-tax **AGI -based income of top one per cent** for 1975, 1986 and 2018

year	<u>No tax returns</u> Mills	<u>Nominal</u> AGI per return of top 1% \$K Table 8A (H)	Tax per return of top 1% \$K Table 8A J <u>Nominal</u>	Tax Rate B/A %	After tax income <u>Nominal</u> \$K A-B	After tax income <u>per</u> <u>return</u> based on <u>Real 2018</u> <b>dollars</b> \$K	Total After tax income of 1% <b>2018\$</b> \$Bill	Inflation factor
	H	A	B	E	C	D	F	G
1975	82.2			42.5		248(see paragraph above)	<b>204</b>	4.76
1986	102.1	279	92.6	33.2	186.4	533 Table 11A	<b>544</b>	2.260
2018	144.3	1,677	426.7	25.4	1250	1250 Table 11A	<b>1804</b>	1.000

ABOVE INCOME DOES NOT INCLUDE 38% NOT INCLUDED IN AGI. Also per capita tax of 1% is calculated by dividing total tax of top 1% by 1% of the number of returns or 1.44 million in 1986 as in Table 8A. This gives a different result than calculating the tax on the average AGI income as is done in Table 15 later.

E) According to 24/7 Wall St as quoted in USA Today in July 2020 <sup>24</sup>, “it takes an annual income of \$538,926 to be among the top 1 percent. Among the approximately 1.4 million taxpayers who meet this threshold, the average annual income is about **\$1.7 million** – about 20 times the average income of \$82,535 among all taxpayers. To determine how much you need to make to be in the 1% in every state, 24/7 Wall St. reviewed 2017 **adjusted gross income** percentile data for the 2017 tax year from the IRS. All income data was adjusted for inflation to 2019.

### Growth of GDP per capita

The growth of GDP per capita, a measure of productivity from Macrotrends are shown in Tables 13 and 14.

Table 13. Real GDP per capita 1947 – 2018.

year	US GDP/capita <sup>25</sup> <b>NOMINAL</b> \$ A	Inflation factor The Balance B	Infl.factor 2018 basis C	GDP Nom. Trill\$ <sup>26</sup> D	TOTAL Returns millions <sup>27</sup> E	US GDP/capita <b>REAL</b> 2018\$ F = A x C	ratio	ratio
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<sup>24</sup> How much do you need to make to be in the top 1% in every state? Here's the list  
Samuel Stebbins and Evan Comen 24/7 Wall St. July 2020 USA Today

<sup>25</sup> Macrotrends US GDP per capita 1960-2021

<sup>26</sup> The Balance US GDP by year compared to Recessions and Events April 2021

<sup>27</sup> US population by year www.mulpl.com/united-states

1947	1,735 D/C	0.123	8.967	0.250		15,558	1.000	
1960	3,007	0.164	6.726			20,226		
1975	7,801	0.298	3.701			28,872	1.856	1.000
1986	19,071	0.577	1.912			36,464		
2012	51,603	1.000	1.103			56,918		
2018	63,064	1.103	1.000		144.13	63.064		2.184

Table 14. Annual Growth of GDP/capita from 1947-2018 – from Calculator.net

Year range	Interest rate compounded Per Cent growth in GDP/capita	Maximum tax rate range
1947-1960	2.039	
1947-1975	<b>2.223</b>	70-91
1960-1975	2.401	
1975 -1986	2.145	
1986-2018	1.727	
1975-2018	<b>1.834</b>	37-70
2012-2018	1.724	37-70

The annual growth rate in per capita GDP from 1947 to 1975 during the Great Prosperity averaged 2.2% a year with a maximum tax rate ranging from 70% to 91%. After the post Great Prosperity from 1975 to 2018 the compounded growth in per capita GDP fell to 1.83% (1.72 from 2012 to 2018) with the maximum tax rate falling from 70% to 37%. Towards the end of this period, from 2012 to 2018, the rate of increase fell to 1.72. According to the OECD<sup>28</sup>, from 1975 to 2018 the GDP per capita in the US in 2015 dollars increased from \$27,379 to \$59,580 from 1975 to 2018, a compounding annual increase of 1.83%, agreeing with our numbers above from the Macrotrends reference. For the whole OECD the per capita GDP increased from \$19,508 to \$42,554, an annual increase of 1.83%, the same as the US. From 2012 to 2018 the US per capita GDP grew from \$49,518 to \$54,401 in 2010 dollars, or in the ratio 1.0986 or roughly 6.4% /yr. For the OECD the growth was from \$36,059 to \$39,583 in 2010 dollars or in the ratio 1.0977 or about 6.3%/yr.

According to Piketty, the annual growth of per capita national income was 2.2 % from 1950 – 1990 and 1.1 per cent from 1990 to 2010 as the top income tax rate fell from 72 per cent to 35 per cent as in Figure 8. From the OECD data the growth of per capita GDP in the US from 1990 to 2010 was from \$35,979 to \$48,394 in 2010 dollars or a ratio of 1.345. This gives a compounding annual increase of 1.493. However, as in Table 14A below the effect of the 2010 recession clearly slowed the growth.

Table 15A. US and OECD per capita GDP in 2010 dollars from 1970-2018

	1970	1975	1980	1985	1990	1995	2000	2005	2010	2012	2015	2018
US	23,203	25,119	28,527	32,040	35,979	38,325	44,690	48,422	48,394	49,518	52,005	54,401
OECD	16,283	18,115	20,712	22,789	26,147	27,917	31,988	34,586	35,283	36,049	37,718	39,583

Source OECD stats per capita GDP

<sup>28</sup> Gross domestic product (GDP), 2019 archive

**Altering the top tax rate for personal income.** We examine the effect of increasing the top AGI tax rate. From the Tax Foundation as in Table 6, for 2018 the total AGI of the 1.443 million **top one percent** was \$2.421 trillion. Thus, the average AGI of the top 1% was \$1,678M. The average income taxes paid was \$426.6K with a tax rate of 25.4%, both from Table 6. We now calculate according to the tax brackets tax for the average AGI with a current maximum rate of 37%. And also a maximum 50% and 70% tax. Also we examine a (average) capital gains income of both 18.5% of income as does Piketty but also one of 50% for the top one per cent. Table 15 shows the results of the different tax levels. The 2018 tax rates are from the Tax Foundation<sup>29</sup>. We use a capital gains tax as in Table 16 for 2018<sup>30</sup> The income of the top 5% excluding the top 1% (96%-99%) can be obtained from Table 6. Their AGI is \$4.218-\$2.421 trillion or \$1.797 trillion. With 4% of 144.3 taxpayers or 5.772 taxpayers and AGI of \$311.3K. This is below the maximum tax bracket of \$600K in 2018 and below the split point of \$540K income for the top one per cent in Table 6.

Table 15 Calculation of 2018 per capita tax for top 1% with **average AGI** of \$1.678M For 18.5% and 50% of income as capital gains. Filing -Married joint return 2018\$

AGI income to	Incremental. Income A	% Tax rate for Labor + Capital (eg Rents) (Picketty B	\$ tax 63% AB (Labor) + 18.5% AB (eg Rents) 0.815xAB	Capital Gains tax (on 18.5% of income C	Labor and Rent tax if capital gains 50% of income (Labor and rent 50%)	Tax on 50% capital gains
. 19,050	19,050	10	1,552	See table 16	A x(50/81.5)	B x(50/18.5)
77,400	58,350	12	5,706			
165,000	87,600	22	15,706			
315,000	150,000	24	29,340			
400,000	95,000	32	24,776			
600,000	200,000	35	57,050			
<b>1.678M</b>	1.078M	37	325,071			
		50	439,285			
		70	614,999			
			With 18.5% capital gains	With 50% capital gains		
<b>Total with 37% max tax</b>			<b>459,202</b>	56K	281,719	150K
<b>Total with 50% max tax</b>			<b>573,415</b>	56K	351,788	150K
<b>Total with 70% max tax</b>			<b>749,130</b>	56K	459,588	150K
<b>TOTAL Tax 37% max tax</b>			<b>\$515K</b>		<b>\$432K (\$427K*)</b>	

<sup>29</sup> For married individuals filing joint returns, - Tax foundation, 2018 Tax Brackets, Amir El-Sabaie,

<sup>30</sup> Wikipedia. Capital gains in the United States., based on Motley Fool **Your Guide to Capital Gains Taxes in 2018** Matthew Frankel, CFP Jan21, 2018. \*\*

50% max tax	\$630K	<b>\$502K (\$497K*)</b>
70% max tax	\$805K	<b>\$610K (\$603K*)</b>

\*Tax Foundation Table 6 Estimate 52% income as capital gains in Table 15.  
So the total tax of the top 1 per cent per person is \$515K for capital gains equal to 18.5% of income and \$432K for 50% of income as capital gains, close to the \$427K tax from Table 6.. We extrapolate to estimate 52% of income as capital gains and enter in Table 15 at bottom.\*

Table 16 Capital gains taxes for top one per cent (married filing jointly)

A Range	B Rate%	AxB \$K	Taxes Raised from capital gain income	
0-77K	0	0		
77K-479K	15	60	Per cent income as capital gains	
479K-1,678K	20	240	18.5 (Picketty)	50
TOTAL		300K	56K	150K

Table 16A Motley Fool Long Term capital gain tax rates

Long-term capital gains rate	Single taxpayer	Married filing jointly	Head of household
0%	Up to \$38,600	Up to \$77,200	Up to \$51,700
15%	\$38,600-\$425,800	\$77,200-\$479,000	\$51,700-\$452,400
20%	Over \$425,800	Over \$479,000	Over \$452,400

DATA SOURCE: TAX CUTS AND JOBS ACT.

According to CNBC<sup>31</sup> for people earning over \$10 million per year half their income comes from capital gains. In Table 15, and Table 16 we look at the case where the top one percent earn 18.5% of their income from capital gains as stated by Picketty and also 50% of their income from capital gains The latter results in a lower total tax of \$432K, close to the Tax Foundations estimate. However, the average income of the top one percent as we showed above, below Table 6, is \$2.7million, well below the CNBC study of a \$10 million income.

Mathematically a calculated tax on the average income (Total AGI/No. of returns) is not the same as the actual average tax (Total tax of top 1%/No of returns. This can be determined by running a test case of three imaginary tax returns with varying income and tax brackets. According to the Tax Foundation<sup>32</sup> for 2018, total realized capital gains were \$944 billion and the taxes on this \$170 billion at a tax rate of 18.0%. As in Table 6, the total AGI in 2018 was \$11.6 trillion. Thus, the capital gains were only 8.1% of the total AGI. This however is for the

<sup>31</sup> CNBC Where the rich make their income PUBLISHED THU, APR 9 2015 11:09 AM EDT UPDATED THU, APR 9 2015 2:33 PM EDT

<sup>32</sup> Tax Foundation Capital Gains Tax collections, historical data (1954-2018)

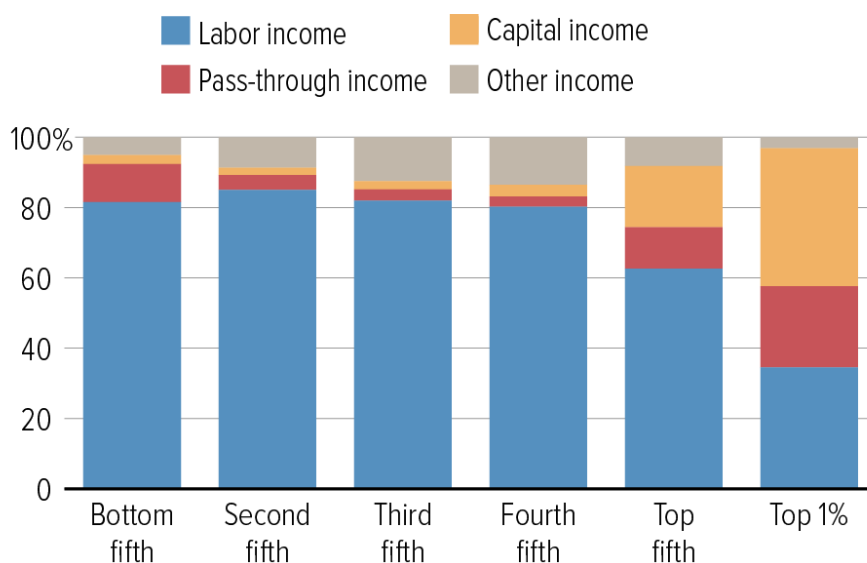
whole population. Picketty’s estimate is 18.5% average income from capital gains. For the top one per cent we use 52% income from capital gains as in Table 15 to satisfy Table 6 as discussed above.

According to the Center for Budget and Policy Priorities<sup>33</sup>, “For the top 1 percent of households, in contrast, capital income — most of which enjoys preferential tax rates<sup>41</sup> — constitutes 41 percent of their taxable incomes, while labor income makes up just 34 percent, according to CBO.<sup>45</sup> Most of the remaining 25 percent is pass-through business profits,<sup>46</sup> which are usually a combination of labor and capital income and also enjoy special tax preferences.<sup>47</sup> This means that most of the taxable income of the top 1 percent receives favorable tax rates. Moreover, these figures omit unrealized capital gains, which as noted, often don’t face income tax for years, if ever, and are highly concentrated in the top 1 percent.” So from the figure below capital income represents about 42% of income plus part of 22% split between capital gains and labor. So we will hold with our estimate of 52% as capital gains fraction of income for the top one per cent.

Figure from Center for Budget and Policy Priorities.

## Most Income at the Top Comes from Capital or Pass-Through Profits

Composition of income (before taxes, government transfers, and social insurance benefits), by income fifth (2016)



Note: Labor income consists primarily of wages and salaries. Pass-through income is income for owners of businesses such as partnerships, S corporations, and sole proprietorships. Capital income includes dividends, interest, rental income, capital gains, and most corporate taxes. Other income consists of retirement income and other nongovernmental sources of income.

Source: Congressional Budget Office

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

<sup>33</sup> **Substantial Income of Wealthy Households Escapes Annual Taxation Or Enjoys Special Tax Breaks Reform Is Needed.** NOVEMBER 13, 2019 | BY [CHUCK MARR](#), [SAMANTHA JACOBY](#) AND [KATHLEEN BRYANT](#)

The annual extra money raised from higher tax rates is summarized in Table 17, \$164 billion for a top tax of 50% and \$418 billion for a top tax of 70%.

Table 17 Effect of increased maximum personal income tax on the top 1%. Married status. 2018 dollar anchor. AGI based tax. 2018\$. For 18.5% and (52%) of income as capital gains.

Top tax rate	Average AGI Table 15 A	Ave. Tax per capita \$K/yr <b>Table 15</b> \$2018 B	Extra tax K\$ per capita/yr. for top 1% from tax increase C	Average income with new taxes \$K D A-B	Extra National FEDERAL Tax over <b>10 years</b> , based on 144M x0.01 returns E C x 1.44M x10
37(2018)	\$1.678 million	515 (427) BASE CASE	0	1,163 (1,251)	0
50	\$1.678 million	630 (497)	115 (72)	1,048 (1,181)	\$ 1.66 trill. (\$1.04 trill))
70	\$1.678 million	805 (603)	290 (176)	873 (1,075)	\$ 4.18 trill. (\$2.53 trill)

We showed in Table 10 that the increase in annual after-tax income of the top one percent between **1986 and 2018 was \$3.314 trillion (2018) – \$0.825 trillion (1986) or \$2.489 trillion in 2018 dollars**, an actual increase of 302%, but an equivalent **increase of \$1.83 trillion or 222%** per capita factoring in **population growth** from 240 million to 327 million (ratio 0.733).

We showed in Table 17 that increasing the 2018 top tax rate from 37% to 50% with an AGI based tax would raise taxes of the top one per cent by \$1.66 trillion in 2018 dollars for 18.5% capital gains and \$1.04 trillion for 52% income as capital gains. Raising the top tax to 70% would raise \$4.18 (18.5% CG) trillion of \$2.53 trillion (52% CG) per year reducing the actual annual gain since 1986 to \$3.314 trillion - \$4.18 trillion, a decrease of \$0.87 trillion (18.5% CG) or \$3.314 - \$2.53 = 0.784 trillion. (52% CG). Factoring in the 36 % population growth, on a 1986 population basis this is a decrease of \$0.64 trillion (18% CG) or gain of \$0.57 trillion (52% CG).

We now modify Table 12 (reshown below) which discusses AGI based income to include the effect of optional increased taxes (as in Table 17) to produce Table 18 below.

Table 12 IRS-based after-tax **AGI -based income of top one per cent** for 1975, 1986 and 2018

year	No tax returns Mills	Nominal AGI per return of top 1% \$K Table 8A (H)	Tax per return of top 1% \$K Table 8A J Nominal	Tax Rate B/A %	After tax income Nominal \$K A-B	After tax income per return based on Real 2018 dollars \$K D	Total After tax income of 1% 2018\$ \$Bill F	Inflation factor G
	H	A	B	E	C	D	F	G
1975	82.2			42.5		248(see paragraph above)	204	4.76
1986	102.1	279	92.6	33.2	186.4	533 Table 11A	544	2.260
2018	144.3	1,677	426.7	25.4	1250	1250 Table 11A	1804	1.000

Table 18 After-tax **AGI -based income of top one per cent** for 1975, 1986 and 2018 with theoretical tax increases. **52% CG as ( )** otherwise 18.5% CG

Year	No tax returns Mills	Max tax rate	After tax income per return Real 2018 dollars \$K D	Extra tax per return of top 1% Table 17 C	Basis of tax calculation	Increased National tax \$ trillions <u>10 years</u> E	Total after tax income of 1% 2018\$ \$Billions D X A/100 F
	A	B	D	C		E	F
1975	82.2	70 actual	248* table 12 D		IRS Table 12 D	0	204
1986	102.1	50 actual	533* table 12		IRS Table 12 D	0	544
2018	144.3	37 actual	1250* table 12		IRS Table 12 D	0	1804
2018	144.3	37 actual	1163**(1251) table 17	0	Tables 15, 17	0	1665(1805)
2018	144.3	39.6 theory	1130** table 17	-33	Tables 15-17	0.48	1,623
2018	144.3	50 theory	1048 ** (1181) table 17 col D	115(72)	Tables 15 17	1.66 (1.04)Table 17 col E	1509(1701)
2018	144.3	70 theory	873 (1075)** table 17 col D	290 (176) Table 17 Col C	Tables 15 17	4.18 (2.53)	1257 (1548)

\*\* Table 17 Col. D based on Tax Foundation \* Table 12 Col. D based on IRS data

As we indicated below Table 12, per capita tax of top 1% in Table 12 is calculated by dividing total tax of top 1% by 1% of the number of returns or 1.44 million in 1986 as in Table 8A. **This gives a different result than calculating the tax on the average AGI income as is done in Table 15.** We will use the calculated income for 2018 as in table 18, below in Table 19.

Table 19 The relative after-tax income of the top 1% from 1975 to 2018 in 2018 dollars.  
( ) refers to 52% income as CG, otherwise 18.5% as in Piketty.

	Year	No returns Million  G	Top tax rate %  A	After tax Income per return \$K Table 18 Col. D  B	Total national 1% after tax income \$B BxG  C	Theoretical Extra personal Taxes Billions 10yrs Table 18 Col E  D	Relative income per return (Column B) 1975 basis E	Relative after tax income per return (Column B) 2018 basis  F	Relative after tax income per return since 1975  H
1	1975	82.2	70 actual	248*	207 204	0	100	100*	100
2	1986	102.1	50 actual	533*	544	0	2.15	215	215
3	2018	144.3	37 actual	1250*	1804	0	5.04	504	<b>504</b>
<b>4</b>	<b>2018</b>	<b>144.3</b>	<b>37 actual</b>	<b>1163** (1251)</b>	<b>1678</b>	<b>0</b>		<b>100** (100)</b>	<b>504</b>
6	2018	144.3	<b>50 theory</b>	1048** (1181)	1512 (1704)	1,66(1.4)		90.1 (94.4)	454(476)
7	2018	144.3	<b>70 theory</b>	873** (1075)	1260 (1551)	4,18(2.53)		75.1 (85.9)	379 (433)
8	2018	144.3	<b>55 theory</b>	1005***		2,290 calc.		86.4	435

\*\*\*Interpolation from 37% and 70% above. \* Table 12 Col. D based on IRS data

\*\* Table 17 Col. D based on Tax Foundation (1) Table 18 (int) = interpolated

Rows 1-3 are based on IRS data discussed earlier with a relative after-tax basis of 504 in 1986 compared to 100 in 1975. We then switch to Tax Foundation data for rows 4-7 using the factors in column F for the relative after-tax factors with 1986 as 100, then build on the 504 number for 1986. Estimates of extra taxes above a tax 37% rate are calculated using Tax Foundation data for consistency. Increasing the 2018 maximum tax from 37% to 50% only reduces after tax income by 10% in Table 19 column B (1048/1163).

For 18.5% CG taxes, each 1% tax raise provides 126.0 billion dollars in 10 years. (4.18 trillion for 70% tax versus 1.66 trillion for 50% tax). For 52% CG income each 1% income tax provides (2.53-1.40)/20 or \$56.5 billion in 10 years.

### **Preliminary (long) Summary of the Post Great Prosperity period**

From 1975 to 2018, the income of the **top one per cent** before taxation rose from 9 per cent to 22 per cent of the total national income (TNI) (figure 6) while remaining at 10% in Europe Canada and Japan and that of the lower 50% fell from 20% to 12.5 %. (Table 7(B) and figure 4)). The top federal tax fell from 70% to 37%. The average after-tax income of the top one percent in 2018\$ based on AGI grew from \$248K to \$1250K, an increase of 404% (Table 12 col. D).

For the **lowest 50%**, from 1970 to 2015 (Figure 7) the average income before taxes and monetary transfers such as food stamps stayed around 15,000 dollars (2015 dollars) with no growth. The- after-tax income after monetary transfers rose to \$17,000. Including health spending the rise from 1970-2015 was \$15,000 to \$20,000, a growth of 33% (figure 7), or an average of 33%/45 yrs. or 0.73%/yr. We extrapolate this to 2018 in line with other data such as median income and income of the top 1%. Still in 2015 dollars the estimated 2018 after tax income of the lower 50% would be \$20,768. From the bureau of labor statistics, the CPI in 2015 was 233.7 and in 2018 was 247.9, a ratio of 6%. Thus in 2018 dollars we have for the after tax income of the lower 50%, \$15,000 x 1.06 or \$15,900 in 1970 and \$20,768 x 1.06 or \$22,014 in 2018. The growth from 1970 to 2018 was 38.5%. This is income after taxes, monetary transfers and health spending. With a growth of 0.73%/yr .we calculate the from 1975 to 2018 the total growth was 35%

Between 1986 and 2018, the average after-tax income of the lower 50% (Table 11B) grew from 17,600 to 18,000 dollars, an increase of 2% in 2018 dollars. This does not include monetary transfers such as food stamps or healthcare as discussed above from Figure 7.

Between 1975 and 2018 the median income before taxes rose from \$48,582 in 1975 to \$62,198 in 2018, an increase of 18% (Table 11C).

As in Table 13, the real annual growth rate in per capita GDP from 1947 to 1975 during the Great Prosperity averaged 2.2% a year with a maximum tax rate ranging from 70% to 91%. After the post Great Prosperity from 1975 to 2018 the compounded growth in per capita GDP fell to 1.83% (1.72 from 2012 to 2018) with the maximum tax rate falling from 70% to 37%. Towards the end of this period, from 2012 to 2018, the rate of increase fell to 1.72. According to the OECD<sup>34</sup>, from 1975 to 2018 the GDP per capita in the US in 2015 dollars increased from \$27,379 to \$59,580 from 1975 to 2018, a compounding annual increase of 1.83%, agreeing with our numbers above from the Macrotrends reference. For the whole OECD the per capita GDP increased from \$19,508 to \$42,554, an annual increase of 1.83%, the same as the US. From 2012 to 2018 the US per capita GDP grew from \$49.518 to \$54.401 in 2010 dollars, or in the ratio 1.0986 or roughly 6.4% /yr. For the OECD the growth was from \$36,059 to \$39,583 in 2010 dollars or in the ratio 1.0977 or about 6.3%/yr. According to Piketty, the annual growth of per capita national income was 2.2 % from 1950 – 1990 and 1.1 per cent from 1990 to 2010 as the top income tax rate fell from 72 per cent to 35 per cent.

The annual after-tax income of the top one percent between 1975 and 2018 as in Table 19 columns B and H based on IRS data increased by 404 per cent from \$248K to \$1250K in 2018 dollars. Increasing the maximum personal income tax rate from 37% to 50% reduces the gain since 1975 from 404% to 354 %., for 18.5% CG and to **376% for 52% CG**. Table 19 column H lines 4 and 6). This raises 1.66 **(1.4)** trillion in extra taxes over 10 years (Table 20 column D). Raising the maximum tax rate to 70% reduces the gain since 1975 to 279 **(333)** (column H line 7) per cent and raises \$4.18 **(2.53)** trillion in extra taxes.

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<sup>34</sup> Gross domestic product (GDP), 2019 archive

The annual growth rate in per capita GDP from 1947 to 1975 averaged 2.2% a year and from 1975 to 2018 fell to 1.8%. equal to the rate for the 36 OECD countries. Inequality is measured by the Gini Index, whereby 100 represents complete inequality. The US ranks with Turkey and Nigeria at 41, an increase from 34 in 1970. Most European countries and Canada are from 27-35.

**What to do with the increased taxes** Consider the case where the maximum individual income tax rate is increased to 70 per cent. This raises 4.18 (2.53) trillion dollars in additional taxes over 10 years as in Table 19 If this money were distributed to the lower 99 per cent of taxpayers or 143 million taxpayers in the form of reduced taxes, **the average reduced tax** would be \$418 (253) billion per year/ 143 million or **\$2,923 (\$1,769)**. The effect on the median and lower 50% groups are calculated in Table 21. We assume head of household for filing status of the lower 99%. We assumed married status for the earlier calculations on the top one per cent. As in Table 20 the standard deduction for 2018 is \$18,000.

**Table 20 Standard Deduction in 2018**

Filing status	Standard Deduction
Single	\$12,000
Married Filing Jointly	\$24,000
Head of Household	\$18,000

For convenience, Table 11C is reshown below.

Table 11C Census before-tax income data by quintile in 2020\$

Quintile	Upper limit of quintile	
	1975	2018
I Lowest 0-20	21,933	26,389
20-40	41,164	51,541
40-60	62,203	81,194
Estimate 40-50 (median) <b>upper limit (50)</b>	51,683 2020\$	66,168 2020\$
Estimate 40-50 (median) <b>2018 \$</b>	48,582 2018\$	62,198 2018\$

Below we calculate taxes on the median income. Tax rates are from the Tax Foundation<sup>35</sup> and are given in Table 21.

Table 21 Tax Brackets and Rates, 2018 (Tax Foundation 2018 Tax Brackets)

Rate	For Unmarried Individuals, Taxable Income Over	Married Individuals Joint Returns,
10%	\$0	\$0
12%	\$9,525	\$19,050
22%	\$38,700	\$77,400
24%	\$82,500	\$165,000
32%	\$157,500	\$315,000
35%	\$200,000	\$400,000

<sup>35</sup> Historical U.S. Federal [Individual Income Tax](#) Rates and Brackets

The taxable amount for head of household is \$62,198 (2018 dollars) – \$18,000 or \$44,198 and the tax calculated as in Table 22.

Table 22 Tax on Median 2018 income of \$44,198 after standard deduction in 2018\$

	Tax rate%	Tax \$
0-\$19,050	0	0
19,050-44,198	22	5,533
Total tax		5,533
Income after tax		56,665

The effective tax rate for the median income in 2018 is 5,533/62,198 or 8.9%. as in Table 23. We will assume the same rate for 1975 giving a tax of \$48,582 x 8.9% or \$4,324 and an after-tax income of \$44,258. Now the median before-tax income rose from \$48,582 in 1975 to \$62,198 in 2018 in 2018 dollars as in Table 11C, a real growth of 28%. The after-tax median income also rose by 28%. For the lowest 50%, we determined in the Summary of the post great-prosperity period that in 2018 dollars the after-tax income of the lower 50% grew from \$16,960 in 1975 to \$22,014 in 2018, a growth of 29.8% after monetary transfers and healthcare spending.

Table 23 shows the effect on the median and lower 50%, taxes raised by raising the top tax rate to 70% and giving to ALL TAXPAYERS (except the top 1%) a reduced tax of \$2,923.(1769) For the median taxpayer, the rise of the after-tax income since 1975 is increased from 28.0% to 34.6%.(32.0) For the lower 50%, the rise of the after-tax income since 1975 is increased from 29.8% to 47.2%(40.2). As discussed earlier, the effect on the top 1% is to reduce their after-tax gain since 1975 from 404% to 279%., by raising their taxes by \$4.18 (2.53)trillion over 10 years.

Table 23 Per cent Incomes increases of lower groups from 1975 to 2018 (after distribution of taxes from 70% maximum tax rate in 2018). 18.5% CG and (52% CG). 2018 dollars

Group		Median income			Average Lower 50%	
		As is Table 11C 2018\$	With distribution of \$2,923(1,769)		2018\$	With distribution of \$2,923(1,769)
income	1975 Before taxes	48,582				
	1975After taxes	44,258		1975 after taxes and transfers	16,960	
income	2018 Before taxes	62,198				
	2018 After taxes	56,665 Table 22	59,588(58,434)	2018 after taxes and transfers	22,014	24,937(23,783)
% increase since 1975 after taxes		28.0	34.6 (32.0)		29.8	47.2(40.2)

Table 24 shows the actual after-tax income and income ratios of the various groups in 1975 and 2018 without redistribution of taxes from the top one per cent. Table 25 shows the adjusted incomes following an increase of the top tax rate to 70% and distribution of \$2,923 (1,769) to the lower 99 per cent as described above.

Table 24 **1975-2018** after-tax income summary and income ratios in 2018\$. ( ) is 52% CG otherwise 18.5% CG. **No tax increase or redistribution of taxes from top 1%.**

Group	Year	Reference	Top tax rate	After-tax income \$K	tax	Ratio			
1%	1975	Table 18	70	248	actual	5.6		14.6	
1%	2018	Table 18	37	1163(1251)	actual		20.5(22.1)		52.9(56.9)
median	1975	Table 23	varies	44.3	actual	1			
median	2018	Table 23	varies	56.7	actual		1		
Lower 50%	1975	Table 23	varies	17.0	actual			1	
Lower 50%	2018	Table 23	varies	22.0	actual				1

Table 25 **2018 after-tax income ratios** resulting from tax increase in top one per cent and **distribution of \$2,293 (\$1,769)**

Group	year	reference	Top tax rate	After-tax income	tax	Ratio		
1%	2018	Table 18	70	873(1075)	theory	14.6(18.4)		35.1(45.2)
median	2018	Table 23	varies	59.6(58.4)	theory	1		
Lower 50%	2018	Table 23	varies	24.9(23.8)	theory			1

The ratio of the after-tax income of the top one per cent to the median and lower 50 per cent earners in 1975 was 5.6 and 14.6 respectively. By 2018 these ratios had changed to 20.5(22.1) and 52.9(56.9). Raising the maximum individual tax to 70% and distributing \$2,923 to the lower 90% changes these ratios to 14.6 (18.4) and 35.1(45.2).

### **Raising the top income tax to 70% ( ) is for 52% income as CG, otherwise 18.5% CG**

We examine increasing the maximum personal income tax from 37% to 70% as it was in 1975, with no changes in capital gains or corporate taxes which affect retirement accounts and are controversial. This would raise \$4.2 (2.53) trillion over 10 years. If this money were used to

reduce the taxes of the lower 99 per cent of earners, the average annual tax reduction would be \$2,923(\$1,769). If all taxpayers received the same tax reduction, the rise of the after-tax income since 1975 for the median earner would increase from 28.0% to 34.6% (32.0%) and for the lower 50%, from 29.8% to 47.2%.(40.2) (Table 23) For the top one per cent the increase in their after-tax income since 1975 falls from 404% to 279% (333%) -Table 19

The ratio of the after-tax income of the top one per cent to the median earners in 2018 falls from 20.5(22.1) to 14.6(18.4) and for the lower 50% from 52.9 (56.9) to 35.1(45.2) as in Table 24, substantially above the 1975 ratios of 5.5 and 14.6 respectively.

Most people believe it would be fair to reduce their taxes. Taxing the top 1% by \$4.2 (2.53) trillion and lowering taxes for 99% of taxpayers as described above is easy to understand, reduces the growth in inequality and leaves the top 1 per cent with two thirds of their massive gain in after-tax income since 1975.

Reduced upward mobility in the US is contributing to growing inequality and reduced competitiveness of the US compared to countries who rank higher in literacy. Between 2000 and 2012 the US slipped from 17th to 28th out of 65 countries in mathematics, science and writing, of 15-year-olds, the U.S being one of 3 countries out of 34 that does not put more money per pupil into poor communities. The practice of doing the same job as one's parents is lowest in the Nordic countries and highest in the US. France, Germany and Britain occupy a middle ground. This stands in contrast to the historic belief that social mobility in the US was exceptionally high compared with the class-bound societies of Europe.

The US spent 7 per cent of its Gross Domestic Product on health care in 1971. This increased to 18 per cent in 2017 compared to an average of 9 per cent for the 35 countries in the OECD). The health outcomes are generally no better. The US and Mexico are the only members of the OECD without universal health care. In 2016, the percentage of people without health insurance coverage was 8.8 percent, a reduction from 15 per cent before implementation of the Patient Protection and Affordable Care Act in 2013. The 30 most-commonly prescribed drugs are three times cheaper in New Zealand than in the U.S.

## Health Care

1. The US spent 7 per cent of its Gross Domestic Product on health care in 1971. This increased to 18 per cent in 2017 compared to an average of 9 per cent for the 35 countries comprising the Organization for Economic Cooperation and Development (OECD). By 2023, health costs will make up a fifth of total spending. The US and Mexico are the only members of the OECD without universal health care. Although the US spends more than other developed countries on health care, the health outcomes are generally no better. In 2016, the percentage of people without health insurance coverage was 8.8 percent, a reduction from 15 per cent before implementation of the Patient Protection and Affordable Care Act in 2013. For a fuller discussion see<sup>36</sup> Causes of the high health care costs include;
  - a. The US health care system is inefficient, being less capitalistic than that of Singapore where the cost is 5.7% of GDP. In Singapore, the Ministry of Health makes available on its website hospitals' bills for common illnesses, treatments, specific surgeries and tests. A person can shop for a lower price. – the essence of capitalism. In the US patients are locked into insurance PPOs and HMOs where their choice of providers is limited to a Network of providers.
  - b. In 2017, the US cost of health administration was 1.4 percent of GDP compared to 0.3 % average in the 35 OECD. Countries. Average insurers' overhead costs or expense ratio (premiums minus benefits) are 12.4% of premiums compared to 2.9% for Medicaid, Medicare and other public health care. PPOs, HMOs and EPOs created a complexity of billing unlike some countries where billing is a centralized organization.
  - c. High administrative costs of insurance companies, hospitals and individual providers. The billing workforce cost has decreased the ability of physicians to maintain private practices. The excess administration costs in the US compared to the OECD in 2017 were \$462 billion or \$1,462 per person. The net cost (overhead) of private insurance alone in 2017 was \$700 per capita in 2017. Insurers' overhead costs, with 500,000 employees, average 12 percent of premiums compared to 3 per cent for government insurance - Medicaid, Medicare and other Public health care. In 2011, US nursing staff, spent 20.6 hours per physician per week interacting with health plans (nearly ten times the time spent by those in Ontario),” costing \$83,000 per physician annually
  - d. Insufficient preventative medicine due to a lack of primary care General Practitioners. The higher-paid specialist doctors have increased to 88 percent of doctors compared to 63 per cent in the OECD, while the GPs have shrunk to 12 per cent versus 37% in the OECD.

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<sup>36</sup> Ref 2 A review of the US Health Care System and Recommendations for Change by John McDonald, July 2018, [www.jmescotty.com](http://www.jmescotty.com)

- e. Poorly controlled opioid distribution by pharmaceutical companies made worse by the 2016 Patient Access and Effective Drug Enforcement Act which weakened DEA efforts against companies supplying doctors and pharmacists who sell opioids illegally.
- f. Defensive medicine (eg medically unnecessary Catscans or NMRs to avoid litigation) costs \$250 billion. The settlements from litigation and malpractice insurance were relatively small at \$19 billion.
- g. Lack of transparency in health care costs which would better enable patients to choose cost-effective health care providers.
- h. Lack of ability of patients to “shop around” for cheaper treatment being locked into insurance PPAs and HMOs where their choice of providers is limited to a Network of providers.
- i. The chief purpose of Electronic Health Records (EHR) is financial rather than clinical. The US, unlike many countries has no universal identifier to determine whether a patient seen by one hospital is visiting another.
- j. A patient may receive uncoordinated care from multiple organizations. The US, unlike many countries has no universal identifier to determine whether a patient seen by one hospital is visiting another. Following hospital discharge nearly half of patients experience at least one medical error in medication continuity, diagnostic workup, or test follow-up. Electronic Health Records should be national, with a clinical rather than financial and proprietary function and should include a universal identifier and prescription drug documentation.
- k. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA) promoted by drug manufacturers prohibits the government from negotiating drug prices with pharmaceutical companies. Canada's system has negotiated such low prices from pharmaceutical companies that many Americans buy pills north of the border. Medicare and Medicaid, are required by law to cover almost all drugs approved by the FDA even if a cheaper, effective drug is available. The 30 most-commonly prescribed drugs are three times cheaper in New Zealand than in the U.S. Canada's system has negotiated such low prices from pharmaceutical companies that Americans buy pills north of the border. This will improve by 2026 due to the Inflation Reduction act of August 2022.
- l. While the USA has some of the best healthcare technology in the world, many people do not have health insurance and use emergency rooms, where the cost of treatment may be higher than the expense of treating earlier less severe problems.
- m. Obesity is highest in the US amongst the 35 OECD countries and is a risk factor for many problems, including cardiovascular diseases, musculoskeletal diseases and some forms of cancer.
- n. Inefficiently delivered services due to care fragmentation between organizations, mistakes and unnecessary higher costs.
- o. Lack of transparency in costs. In contrast, in Singapore, the Ministry of Health makes available on its website hospitals' bills for common illnesses, treatments, specific surgeries and tests.
- p. Costs rise because of malpractice, product liability and class action suits, the latter being illegal in other countries. Malpractice payments and insurance however cost only 0.5 percent of total health costs compared to 9 per cent for defensive

- medicine used to avoid litigation. A third of CSCANS and MRIS may be medically unnecessary.
- q. Physicians write prescriptions for the drugs they're most familiar with-and that information comes from the manufacturers. Drug companies spend \$24 billion per year marketing to health care professionals. Only two developed countries allow advertising for prescription drugs - New Zealand and the US.
  - r. U.S. government payers Medicare and Medicaid raise payment levels each year minimally, and reimburse at a fraction of private-plan levels. This causes independent hospitals to join health systems and physicians to move out of private practice and become salaried employees of hospitals. When Medicare is paying the bills, prices tend to be lower. The government-run single-payer agency is the largest source of revenue for most health care providers, which gives it more leverage to set prices. In 2013, the average cost of a neck or back procedure in the U.S. was \$36,215. The average Medicare payment for the same procedure that year was just \$5,818.
  - s. In fee for service, in the US, providers have incentives to provide more services, even if some are inappropriate. Doctors on salary tend to provide fewer services, see fewer patients, and spend more time with each patient.
  - t. In 2017, the US cost of health governance was 1.4 percent of GDP compared to 0.3 percent in the OECD. Average insurers' overhead costs<sup>37</sup> are about 12.4 percent, according to an April <sup>[L]</sup><sub>[SEP]</sub>2017 *Annals of Internal Medicine* article. According to cms.gov, for 2016 the Health Consumption Expenditure(HCE) of government insurance - Medicaid, Medicare and other Public health care- was \$1.51 trillion. The net cost or premiums earned minus benefits paid out was \$43.8 billion, or 2.9 percent (Expense Ratio). Health Care has evolved into PPOs, HMOs and EPOs creating a complexity of billing unlike some countries where billing is a centralized organization. Administration consumed 25 per cent of hospital costs in the US in 2011 compared to 12 per cent in Scotland and Canada.
  - u. The proportion of primary care physicians has declined by more than 40% this century. Money is made when patients are referred to higher-paid specialists, such as for lab testing and imaging. Money spent on specialists increased 7.3% per year from 2012-2015 and declined for general practitioners. Of the 35 OECD countries, only Hungary and Greece have a lower percent of general practitioners than the US which had 12 per cent generalists compared to an average of 30 percent in the OECD.
  - v. Higher prescription drug usage than OECD countries.
  - w. The long proprietary history of Electronic Health Records -EHRs leaves them resistant to interoperability, but one result of EHRs is to enable doctors to maximize treatment payments by "up-coding".

### Health Care Summary

The US spent 7% of its GDP on health care in 1971 and 18% in 2017 compared to 9 % average for 35 countries in the OECD. The health outcomes are generally no

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<sup>37</sup> Comparing administrative costs for private insurance and Medicare, *Manuela Tobias*.

better. The US health care system is inefficient. The US and Mexico are the only members of the OECD without universal health care. In Singapore, where the cost is 6% of GDP, the Ministry of Health makes available on its website hospitals' bills for common illnesses and treatments. A person can shop for a lower price – the essence of capitalism. In the US, patients are locked into insurance PPOs and HMOs where their choice of providers is limited to a Network. Many people with no insurance use emergency rooms, where the cost of treatment is higher than treating earlier less severe problems. The US in 2015 had 12 per cent generalists (down by 40% this century) compared to 30 percent in the OECD. Money is made when patients are referred to higher-paid specialists. A third of CT scans are done for medico-legal reasons. The Veterans Health administration pays 80 per cent less for brand name drugs than Medicare Part D. The 30 most- commonly prescribed drugs are three times cheaper in New Zealand than in the U.S. The MPDIM Act of 2003 prohibits Medicare from negotiating prices with pharmaceutical companies. This will change by 2026 due to the August 2022 Inflation Reduction Act.

In nearly all OECD countries, the public sector is the main source of health care financing. Around three-quarters of health care spending was publicly financed in 2013. Only in Chile and the United States was the share of public spending on health below 50%.

Insurers' overhead costs, with 500,000 employees, average 12 percent of premiums compared to 3 per cent for government insurance such as Medicaid and Medicare. In 2016 excess administration alone cost 1.1% of the GDP. PPOs and HMOs created a complexity of billing unlike some countries with a centralized organization. Electronic Health Records should include a universal identifier so a hospital can determine whether a patient is being seen by another hospital. According to the National Academy of Sciences, if banking were like health care, carpenters, electricians, and plumbers each would work with different blueprints, with very little coordination. Product prices would not be posted, and prices would vary widely within the same store, depending on the source of payment.

**Growing Inequality** Below are extracts from 2015 paper -Growing inequality in the US and how it may be reversed. By J McDonald

Demand can be increased more effectively by reducing taxes on the Lower-Class consumers, because they spend close to 100 percent of any extra income in the local economy, with a multiplicative effect, thereby increasing aggregate demand. But in the case of the wealthy, according to Stieglitz only 80 percent of income is spent, some of it abroad. The rest is saved.

According to Thomas Picketty, the reduction of top marginal income tax rates has not stimulated productivity contrary to supply side theory.

According to Robert Reich, the Great Prosperity (1946-1980) depended on public improvements, safety nets and public investment. In the USA, the highest *Per capita output growth rate* in the last 100 years was 1.9 per cent during this period when the highest marginal income tax rates were 70-90 per cent, much higher than today's and the pay of American workers coincided with their output. After that point, output per hour, a measure of productivity, continued to rise (although not as fast as before), but real hourly compensation was left far behind. The causes include the loss of good jobs abroad and automation. New jobs did not pay as much as the old ones. But by 2009, CEO salaries were 300 times that of the typical worker, up from 30 times in 1975. Union representation has declined from 20.1 per cent of wage and salary workers in 1980 to 11.9 per cent in 2010. This has created an imbalance of economic power and a political vacuum. Once a company has fulfilled its primary responsibility of rewarding shareholders, there is money left over to be split between management and workers. With fewer at the table to argue for increased workers' wages, the income of top management continues to climb unimpeded.

Reduced upward mobility in the US partly due to increased college costs is contributing to growing inequality as well as reduced competitiveness of the US compared to countries who rank higher in literacy. The Program for International Student Assessment (PISA) measures the performance of 15-year-olds in mathematics, science and writing. Between 2000 and 2012 the US slipped from an average of 17th to 28th out of 65 countries. Fifty years ago, when GM was the largest employer in America, the typical GM worker earned \$35 an hour in today's dollars. By 2014, Walmart, America's largest employer paid an average hourly wage of \$11.22. (x1.06 or \$12 in 2018). Moving money from the bottom to the top lowers consumption because higher-income individuals consume a smaller proportion of their income than lower-income individuals. Those at the top save 15-25 per cent of their income, those at the bottom spend all their income. *For each 1% increase in spending outcome increases by 1.2-2.0 per cent due to the multiplier effect.*

Greater mobility is often mentioned as a reason to believe that increasing inequality is not that important. The most firmly established result in this area of research is that inter-generational reproduction (*essentially doing the same job as your parents*) is lowest in the Nordic countries and highest in the US (with a correlation coefficient two thirds higher than in Sweden). France, Germany and Britain occupy a middle ground, less mobile than northern Europe but more mobile than the United States. One possible explanation for this is that US university fees rose sharply in the period 1990-2010 while the median family wage has stagnated. The proportion of college degrees earned by children whose parents belong to the bottom half of the income hierarchy stagnated at 10-20 per cent in 1970-2010, while it rose from 40 to 80 per cent for children with parents in the top quartile. Increased subsidies to education and lower taxes for the Lower and Middle Classes directionally will reduce this problem.

Private wealth seems to be on the verge of returning to 5 -6 years of national income as in the late 19th century, with the emergence of a new patrimonial capitalism. The private rate of return on capital,  $r$ , can be significantly higher for long periods of time than the rate of growth of income and output,  $g$ . Wealth accumulated in the past grows more rapidly than output and wages. According to Picketty, for countries at the technological frontier the growth rate will likely not exceed 1-1.5 per cent in the long run. With an average return on capital of 4-5 per cent it is therefore likely that  $r > g$  will again become the norm as it had been before WWI. Capital-

dominated societies in the past, with hierarchies largely determined by inherited wealth can arise and subsist only in low growth regimes.

Lower rates of GDP growth compared to return on capital has increased capital from 2-3.5 times the national income to 4.3 in the US. A ratio of 6-7 in the late 19th century in France and Britain represented patrimonial capitalism, when the wealthy were rentiers, dominating those who owned nothing but their labor.

Picketty estimates a future long term *per capita output growth* of 1.2 per cent in the wealthy countries. Per capita output growth in the USA was 1.4 per cent 1913-1950, 1.9 per cent 1950-1970, 1.6 per cent 1970-1990 and 1.5 per cent 1990-2012. In contrast to what many people believe, Britain and the US have not grown more rapidly since 1980 than Germany, France, Japan, Denmark or Sweden.

According to Stiglitz, even although the US supposedly has a higher corporate tax rate than much of the world, reaching 35% according to statute, the real average tax is on par with many other countries. Loopholes and special provisions have reduced the tax so much that it has gone from providing 30 % of the federal revenues in the 1950s to less than 9 % today. In the USA, the highest *Per capita output growth rate* in the last 100 years was 1.9 per cent from 1950-1970, during and after the Eisenhower era when marginal income tax rates were 70-90 per cent. The lower growth rate of 1.5-1.6 per cent from 1970 to 2012 coincided with falling tax rates from 70 per cent to 28 percent in 1986 to today's 35 per cent. (note this was increased to 39.6% in 2013).

The US economy was much more innovative in 1950-1970 than in 1990-2010 to judge by the fact that productivity growth was *higher*. From the above figures, the economy can clearly thrive at marginal tax rates significantly higher than today's rates in the USA. We can state the following;

Robert Reich states that according to a New York Times/ CBS poll, 69 per cent of Americans support the rich paying more taxes. As recently as a decade ago most Americans believed that great wealth trickled downward. In fact, the rich are becoming richer and the median wage is dropping.

John Maynard Keynes emphasized that every dollar spent in an economy has a multiplier effect. Not only does it go to the person who originally receives it, but also indirectly to other people whom the recipient of the original dollar pays for the things he needs. High rollers manage to spend only a modest portion of their yearly incomes, but the average American family spends almost all its income. Before the 2008 meltdown, 40 per cent of total spending came from the top ten per cent who took home 50 per cent of the income. Had the broad middle class taken home a larger portion, total spending would have been far greater- and the middle class would not have gone so deeply into debt.

By 2009, Intel, Caterpillar, Microsoft, IBM and other so-called American firms derived most of their revenues from outside the US and were hiring like mad abroad. CEO salaries skyrocketed to 300 times that of the typical worker, up from 30 times during the Great Prosperity. The gains by financial executives trader and specialists represented almost two-thirds of the growth in the

gross national product. By 2007 financial and insurance companies accounted for more than 40 per cent of American corporate profit up from 10 per cent during the Great Prosperity.

Unions have declined from 20.1 per cent of wage and salary workers in 1980 to 11.9 per cent in 2010. (Stieglitz) and from 17% in 1983 to 6% in 2022 (MSNBC reports September 5, 2022).

#### OECD data (Income inequality)

Income is defined as household disposable income in a particular year. It consists of earnings, self-employment and capital income and public cash transfers; income taxes and social security contributions paid by households are deducted. The income of the household is attributed to each of its members, with an adjustment to reflect differences in needs for households of different sizes. Income inequality among individuals is measured here by five indicators. The Gini coefficient is based on the comparison of cumulative proportions of the population against cumulative proportions of income they receive, and it ranges between 0 in the case of perfect equality and 1 in the case of perfect inequality. S80/S20 is the ratio of the average income of the 20% richest to the 20% poorest; P90/P10 is the ratio of the upper bound value of the ninth decile (i.e. the 10% of people with highest income) to that of the first decile; P90/P50 of the upper bound value of the ninth decile to the median income; and P50/P10 of median income to the upper bound value of the first decile. The Palma ratio is the share of all income received by the 10% people with highest disposable income divided by the share of all income received by the 40% people with the lowest disposable income.

The S80/S20 quintile share in 2018 for 44 countries ranged from 3.2 in the Slovak Republic to 13.3 in Costa Rica. The US was third highest at 8.4, with the UK at 6.5, Canada 4.9, France at 4.4 and Sweden at 4.

In 2018 the Gini Coefficient for 44 countries ranged from 0.22 in the Slovak Republic to 0.49 in Costa Rica. The US Was 5<sup>th</sup> at 0.40 equal with Turkey, UK was 0.37, Canada 0.30, France 0.29, Sweden 0.28.

The poverty rate is the ratio of the number of people (in a given age group) whose income falls below the poverty line; taken as half the median household income of the total population. It is also available by broad age group: child poverty (0-17 years old), working-age poverty and elderly poverty (66 year-olds or more). However, two countries with the same poverty rates may differ in terms of the relative income-level of the poor.

The total poverty rate varies from 5% in Iceland to 28% in S Africa. The US is third highest at 18%. UK 13%, Australia, Canada 12%, Sweden France Germany average 9%.

OECD data teacher salaries. According to the OECD<sup>38</sup> the average salary of a primary school teacher compared to that of the average person with a diploma (tertiary education) in 2014 was 68% compared to a OECD average of 81%. For secondary school teachers the ratio was 70% in the US compared to 89% in the OECD. Averaging, the salary of primary and secondary teachers in the US was 69% of average person with a diploma compared to 85% in the OECD.

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<sup>38</sup> OECD (2016), "Table D3.2a - Teachers' actual salaries relative to wages of tertiary-educated workers (2014): Ratio of salary, using annual average salaries (including bonuses and allowances) of teachers in public institutions relative to the wages of workers with similar educational attainment (weighted average) and to the wages of full-time, full-year workers", in *Education at a Glance 2016: OECD Indicators*, OECD Publishing, Paris, <https://doi.org/10.1787/eag-2016-table227-en>.

## The Inflation Reduction Act

Tax Foundation

The [Inflation Reduction Act](#) (IRA), successor to the [House-passed Build Back Better Act](#) of late 2021, has been touted by President Biden to, among other things, help reduce the country's crippling inflation. Using the Tax Foundation's General Equilibrium Model, we estimate that the Inflation Reduction Act would reduce long-run economic output by about 0.2 percent and eliminate about 29,000 full-time equivalent jobs in the United States. It would also reduce average after-tax incomes for taxpayers across every income quintile over the long run.

On a conventional basis, the House bill would raise about \$324 billion in federal revenue from 2022 to 2031. The bill includes about \$676 billion in gross revenue raisers, comprised of about \$213 billion in corporate tax increases, \$54 billion in individual tax increases, \$130 billion net from additional [IRS](#) tax enforcement, \$278 billion from the drug pricing provisions, and about \$1.1 billion in net revenue from items scored by the Joint Committee on Taxation (JCT).

The gross revenue is reduced by about \$352 billion in tax credits, resulting in about \$324 billion in increased revenue net of tax credits.

Spending Item	
Other Health Care Spending.	34 billion
Energy & Climate Spending (Excluding Tax Credits).	116billion
<b>Total Spending Excluding Tax Credits.</b>	<b>150billion</b>
<b>Total Spending Including Tax Credits</b>	<b>502 billion</b>
Source: Congressional Budget Office.	

**Table 3. Additional Spending in the Inflation Reduction Act, 2022-2031**

In summary-

**Total revenue** = \$676B. composed of \$213B corporate taxes, \$54B individual taxes, \$130B additional IRS tax enforcement, \$278B drug pricing provisions, \$1B Joint Committee on taxation provisions.

Tax credits \$352B. Net revenue \$324B

Wikipedia The **Inflation Reduction Act of 2022 (IRA)** is a landmark [United States law](#) which aims to curb inflation by [reducing the deficit](#), lowering [prescription drug prices](#), and investing into domestic energy production

while promoting [clean energy](#). It was passed by the [117th United States Congress](#) and signed into law by [President Joe Biden](#) on August 16, 2022. The bill was the result of negotiations on the proposed [Build Back Better Act](#), which was reduced and comprehensively reworked from its initial proposal.

The law will **raise \$737 billion** and authorize \$369 billion in spending on energy and [climate change](#), \$300 billion in deficit reduction, three years of [Affordable Care Act](#) subsidies, prescription drug reform to lower prices, and [tax reform](#).<sup>[1]</sup> The law represents the largest investment into addressing [climate change](#) in United States history.<sup>[4]</sup> According to several independent analyses, the law is projected to bring the U.S. significantly closer to [Biden's goal](#) of reducing [greenhouse gas emissions](#) to 50% below 2005 levels by 2030.<sup>[5]</sup> It also includes a large expansion and modernization effort for the [Internal Revenue Service](#).<sup>[6]</sup>

Over a period of 10 years, the law is estimated to raise revenue from:<sup>[20][21][22]</sup>

- Prescription drug price reform to lower prices, including [Medicare negotiation of drug prices](#) for certain drugs (starting at 10 by 2026) – \$265 billion
- Imposing a selective 15% corporate minimum tax rate for companies with higher than \$1 billion of annual financial statement income – \$222 billion
- Increased tax enforcement – \$203.7 billion<sup>[23]</sup>
- Imposing a 1% excise tax on [stock buybacks](#) – \$74 billion

***Total revenue over 10 years = \$764.7 billion***

In the same time period, it would spend this revenue on:<sup>[20][24]</sup>

- Addressing domestic [energy security](#) and [climate change](#) – \$369 billion
- [Deficit reduction](#) – \$300 billion
- Continuing for three more years the expansion of [Affordable Care Act](#) subsidies originally expanded under the [American Rescue Plan Act of 2021](#) – \$64 billion
- Funding for drought resiliency in western states – \$4 billion
- Increased funding for the IRS for modernization and increased tax enforcement – \$80 billion<sup>[23][25]</sup>

***Total expenditure = \$817 billion***

As part of the investment into [clean energy](#), the law extended the solar investment tax credit for 10 years.<sup>[26]</sup> The law contains provisions that cap insulin costs at \$35/month and will cap out-of-pocket drug costs at \$2,000 for people on Medicare.<sup>[20]</sup>

Summary. ***Total 10-year expenditure = \$817***

Climate change \$369B

Deficit Reduction \$300B

Affordable Care Act subsidies \$64B

Drought resiliency. \$4B

IRS modernization and tax enforcement. \$80B

*Total revenue over 10 years = \$765 billion*

Drug price reductions. eg Medicare price negotiation. \$265B

Corporate minimum 15% taxes. \$222B

Tax enforcement. \$204B

Tax on stock buybacks. – income for shareholders \$74B

