Jeffrey Sachs: How the Wall Street Journal Distorts the Truth About Taxes

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The Wall Street Journal is the leading mouthpiece for cutting taxes for the rich. The Journal editorial board is fully in the service of that cause. An editorial at the start of this week («Where the Tax Money Is,» April 18, 2011) is a vivid case in point. The Journal claims that IRS data prove the «fiscal futility of raising rates on the top 2%, or even the top 5% or 10% of taxpayers to close the deficit.» The IRS data in fact prove exactly the opposite of what the Journal claims.

I direct readers to the «Summary of Latest Federal Income Tax Data» presented by the Tax Foundation, October 6, 2010, No. 249. There the reader will find the data they need to discover how the Journal has gotten it all wrong.

Consider the top 1% of taxpayers. Even in a year that the Wall Street Journal acknowledges «was a bad year for the economy and thus for tax receipts,» the top 1% reported to the IRS an Adjusted Gross Income (AGI) of $1,685 billion dollars, amounting to 20% of the total reported household income that year, and around 12 percent of GDP. On this sum they paid $392 billion in taxes, an average tax rate of 23%.

The Journal writes that it is impossible to get enough income out of the top 1% to close the deficit, and invites us to undertake the «thought experiment» of taxing all of the income this group. In other words, the Journal claims that even the total income of the richest taxpayers wouldn’t close the deficit. This claim is nonsense.

If the tax rate were 100% rather than 23% (and assuming in the Journal illustration an unchanged AGI), the extra revenues would be $1,300 billion, or 9 percent of GDP. Even allowing for other taxes already paid by the richest 1%, the incremental federal tax revenues would be at least 6 percent of GDP. Since every baseline scenario by the Congressional Budget Office and the Office of Management and Budget shows a deficit between 2013 and 2021 that is less than 6 percent of GDP, the total income of the top 1% would close the budget deficit entirely.

With great bravado, the Journal claims that even the income of the top 10% of the taxpayers wouldn’t close the deficit. The top 10% reported $3,856 billion in AGI, equal to 46% of total reported income in the United States, almost 27 percent of GDP. On that, they paid $721 billion in personal federal income taxes, or an average of 18.7% of income. If the remaining 81% of income were paid in federal income taxes, the increment in tax revenues would be more than $3,100 billion, or roughly 21% of GDP. The budget deficit would obviously be closed many times over.

The real point is obvious. The money received by the richest households is vast, and higher taxes on the rich will make a major contribution to closing the deficit. Nobody says that the rich should carry the entire tax burden or that spending cuts shouldn’t play a role. The waste in military spending alone is so large that we can and should save at least 2 percent of GDP per year from the defense budget alone.

America’s richest households have enjoyed quite a ride in recent decades as they’ve accumulated a mountain of wealth unprecedented in human history, at a time when much of the rest of society has been suffering. The average income tax rate paid by the top 1% has declined from 34.5% in 1980 to just 23.27% in 2008. During this period, the share of total...
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Income accruing to the richest 1% has soared from 8.5% in 1980 to 20% in 2008. The share of total AGI accruing to the top 10% of taxpayers has similarly risen from 32% in 1980 to 46% of income in 2008.

It’s really hard to understand what the Journal was thinking in writing its flawed editorial. Whatever that might have been, they have done us a huge service by drawing attention to the astonishing incomes received by America’s richest taxpayers, coupled with the declining rates of average personal income taxation paid by this group.

Despite the media machine of the corporate sector and the relentless messaging conveyed by some of the world’s richest people, including the Journal’s owner Rupert Murdoch and his ally David Koch, the American people are coming to understand the outsized incomes and wealth of the richest Americans and the need for them to pay more in taxes to help close the budget deficit.