Fiscal Policy and Economic Justice

Emmanuel Saez
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Conference in Honor of Edward Kleinbard
Ed’s passion for fiscal and economic justice

Private practice gave him insider knowledge on high end tax avoidance

Move to public service and academia to denounce tax injustices and help improve taxation

⇒ Upturning the revolving door for the public interest

Interest on social spending developed in his last two books: We are Better than This and What’s Luck Got to Do with it?
Ed’s views on fiscal and economic justice

Ed was upset about egregious tax injustices (stateless income) and wanted to rationalize capital income taxation (BEIT).

But Ed (like many tax law colleagues) was a tax moderate influenced by “tax only consumption” economic dogma.

“I have no interest in simply cutting the rich down to size.” (What’s Luck Got to Do with it?)

“It is public spending, not tax design, that is the more powerful lever in moving towards a more equal and more prosperous country” (We are Better than This)
Average tax rates by income group in 2018: US vs. France (% of pre-tax income)

United States

France
Benefits of social state

**Equity:** Taxes are proportional to income while social benefits are roughly equal ⇒ Combination highly redistributive

**Growth:** Education key driver of economic growth and economic opportunity and mass education is state driven

Two social state models:

**France:** Universal benefits funded by high taxes

**US:** Means-tested or categorical benefits funded by lower taxes

US looks like lean and targeted government but phase-outs are like taxes and reduce popular support

Ed favored broader social state providing “insurance for all”
The rise of the fiscal state in rich countries 1870-2018

Total tax revenue (all taxes and social contributions at all levels of government) divided by national income.

Sources and series: Piketty, Capital and Ideology, 2020, Figure 10.14, updated to 2018
Top 1% pre-tax income shares in US and France 1910-2018

US pre-tax

France, pre-tax
Social state development and taxing the rich

Historically, social state develops at the same time as rich are cut down to size (through progressive taxes but also regulations, depressions, or wars)

Hard to develop social states in top heavy societies because rich have power to block progressive taxes and regressive taxes are not popular

Build Back Better is one step in taxing the rich to expand US social state but modest relative to Western Europe

In the long run, just taxing the rich can’t finance universal social state but can help get programs started and weaken the grip of the rich on the economy