
Progressive Tax Reform in the Era of Globalization

*Jason Bordoff, Policy Director
Hamilton Project, Brookings Institution*

January 30, 2009

Building Consensus for Progressive Tax Reform

- Widespread dissatisfaction with tax code
 - “If you were to start from scratch, the current tax code would provide a guide on what to avoid in designing an income tax system.” – President’s Advisory Panel on Tax Reform (2005)

Building Consensus for Progressive Tax Reform

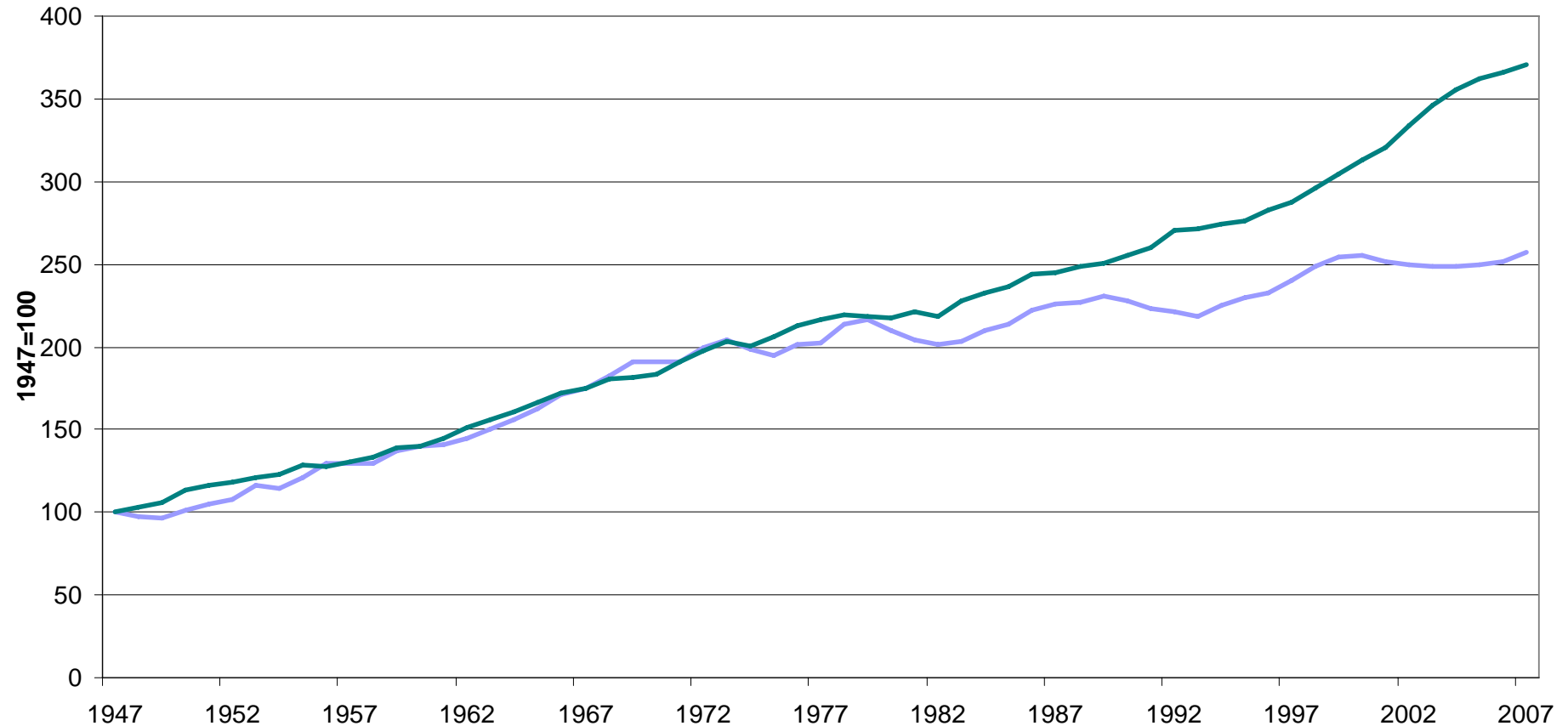
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- Rising inequality
- Protectionist backlash

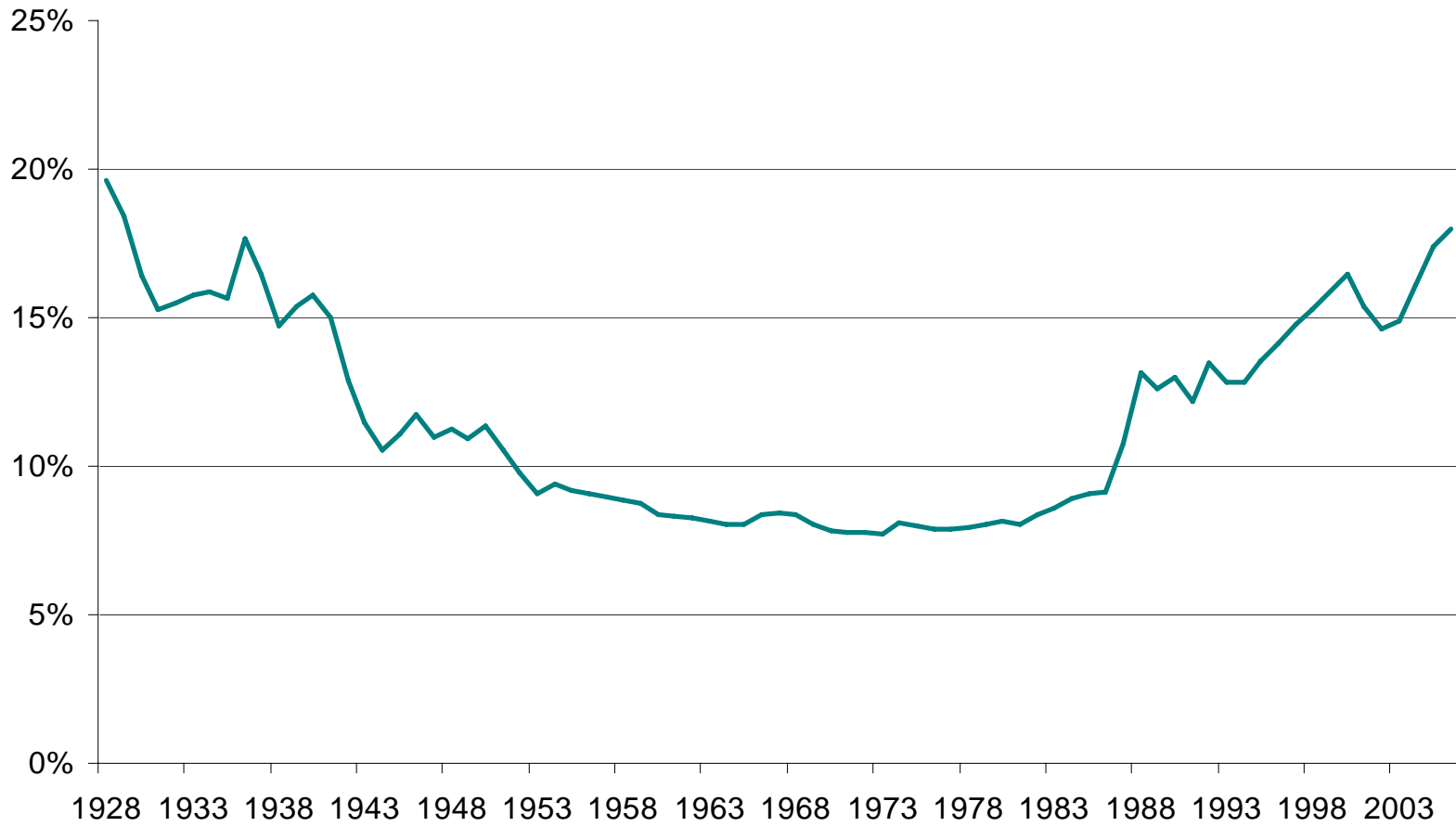
Lack of Broadly-Shared Growth

Productivity and Real Median Family Income Growth, 1947-2007



Rise in Income Inequality

Share of Nation's Income Going to Top 1%, 1928-2006

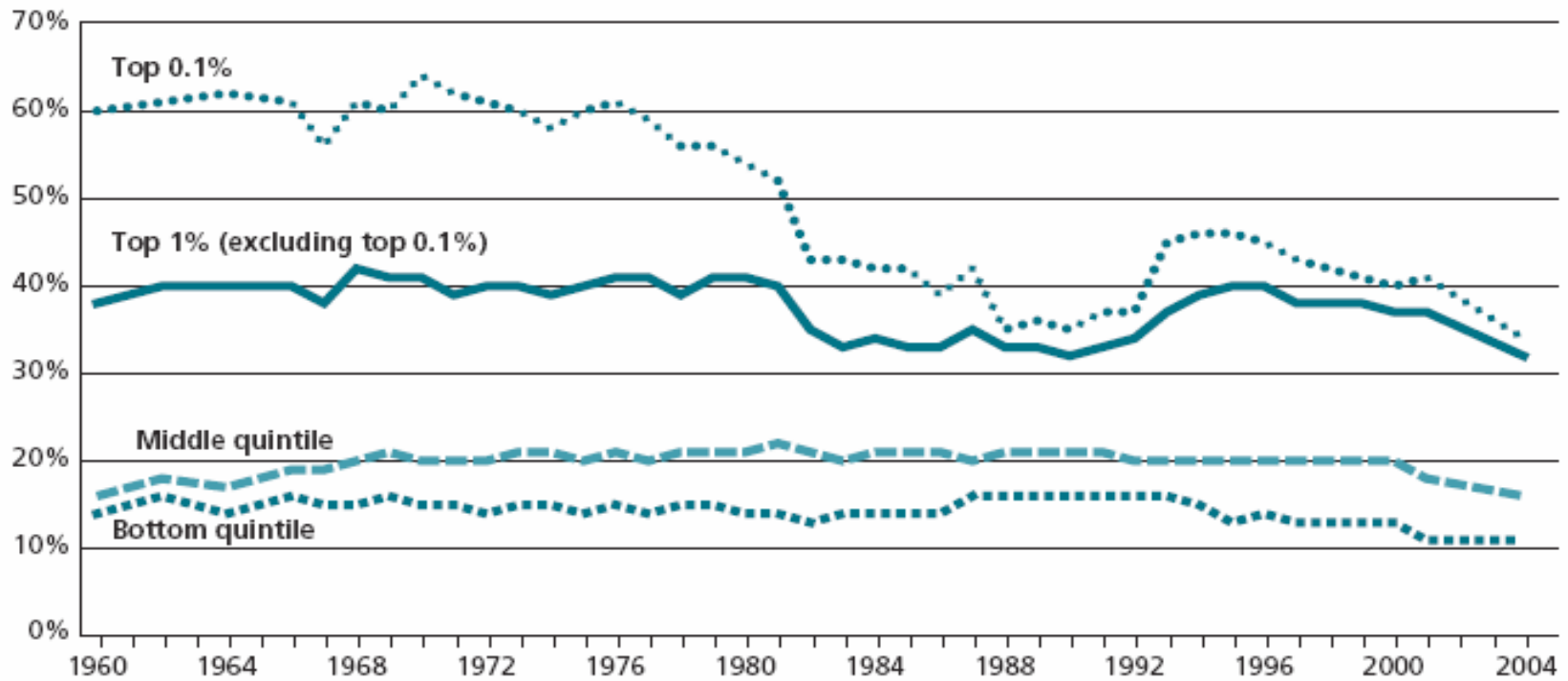


The Case for More Progressive Taxation

- Tax code has become less progressive

The Trend Toward Less Progressive Taxation

Average Federal Tax Rates for Selected Income Groups, 1960-2004



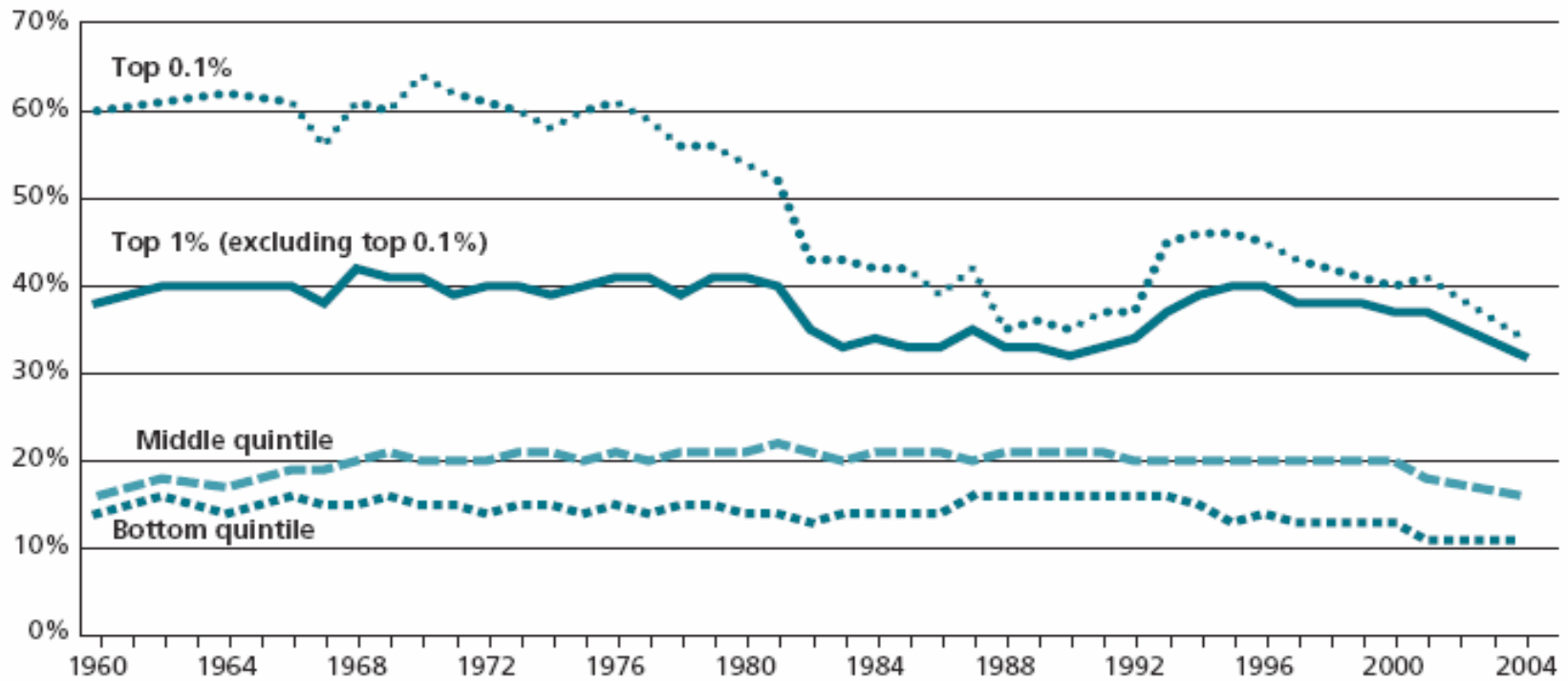
The Trend Toward Less Progressive Taxation

Changes in the Average Federal Tax Rate for the Top 0.1% of Households

	Change from 1960 to 2004 (percentage points)	Contribution to total change (percent)
Individual income and payroll taxes	-2.7	10%
Corporate taxes	-14.0	53%
Estate taxes	-9.6	37%
All federal taxes	-26.4	100%

The Trend Toward Less Progressive Taxation

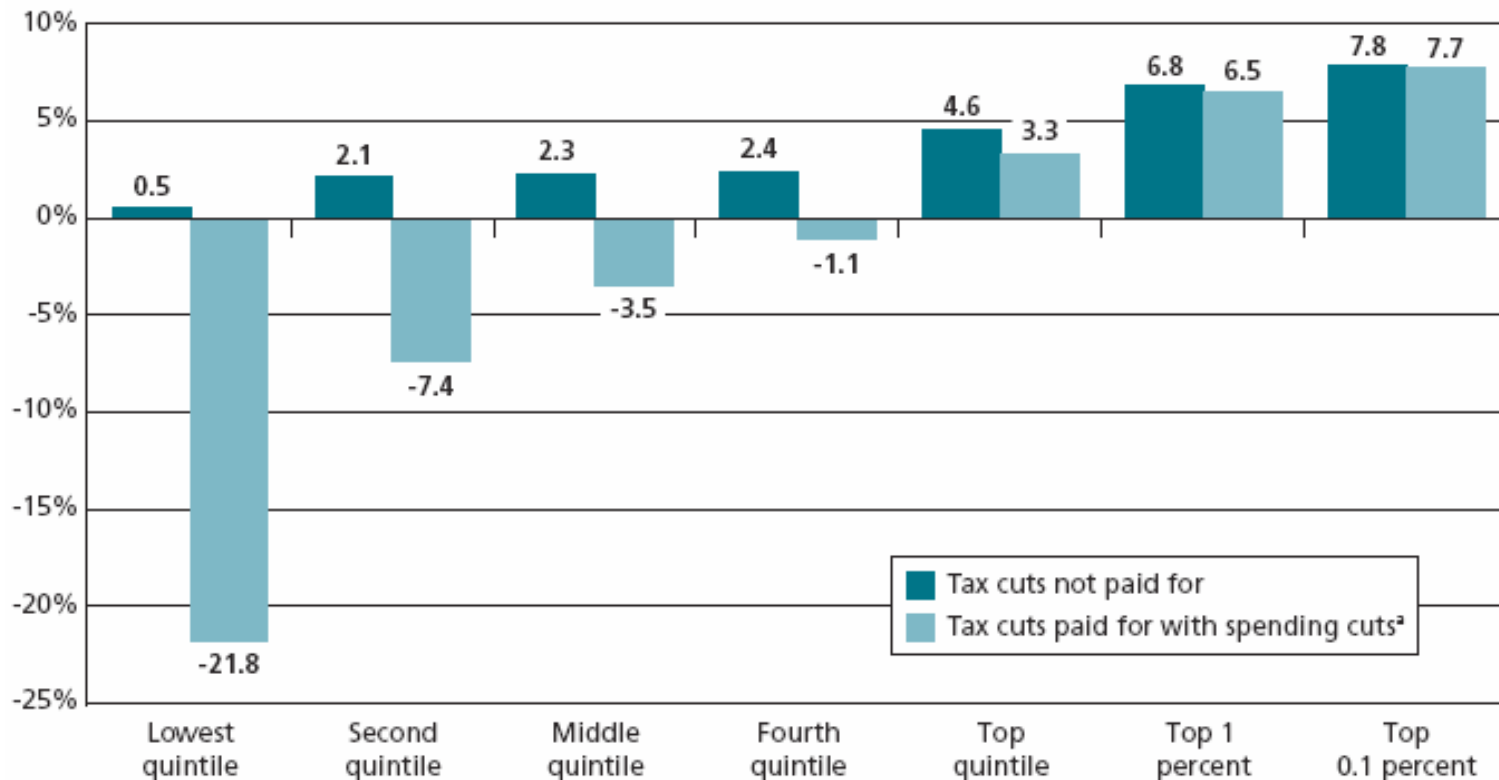
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Effects of 2001-2006 Tax Cuts Made Permanent

Percent Change in Income for Selected Income Groups When Tax Cuts are Fully in Effect in 2012



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- Declining marginal utility of income and desire for “equal sacrifice”

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- Mitigating inequality

The Case for More Progressive Taxation

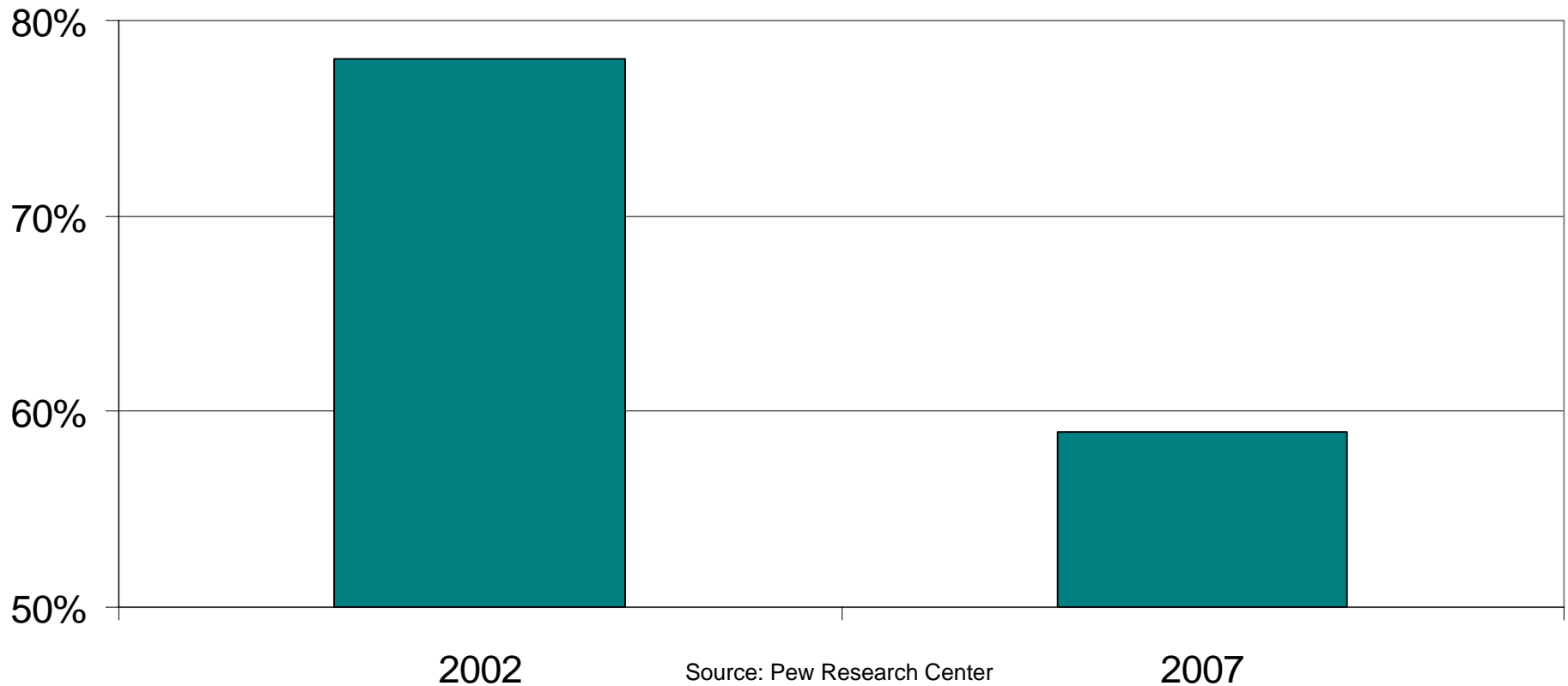
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- Mitigating inequality
- Insurance

The Case for More Progressive Taxation

- Tax code has become less progressive
- Declining marginal utility of income and desire for “equal sacrifice”
- Mitigating inequality
- Insurance
- Automatic stabilizer

Protectionist Backlash

Share of Americans Who Believe Free Trade is Good for their Country



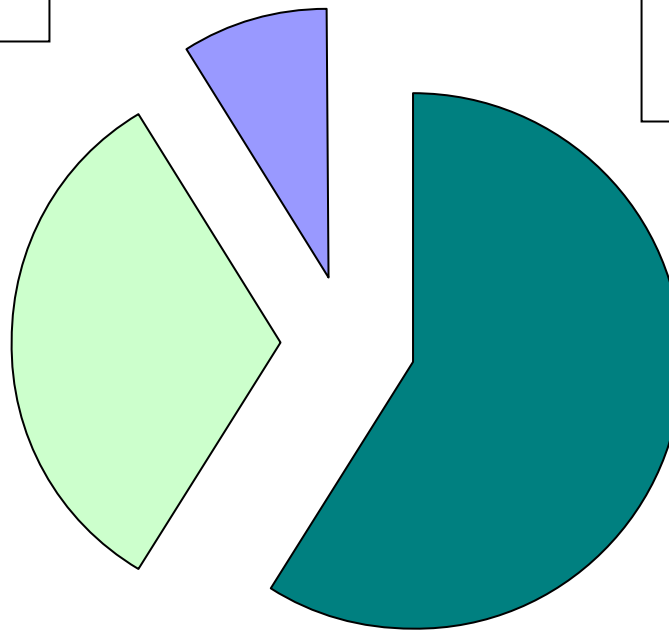
Protectionist Backlash

Percent of Republicans Supporting Free Trade, 2007

Other (9%)

Skeptical (59%)

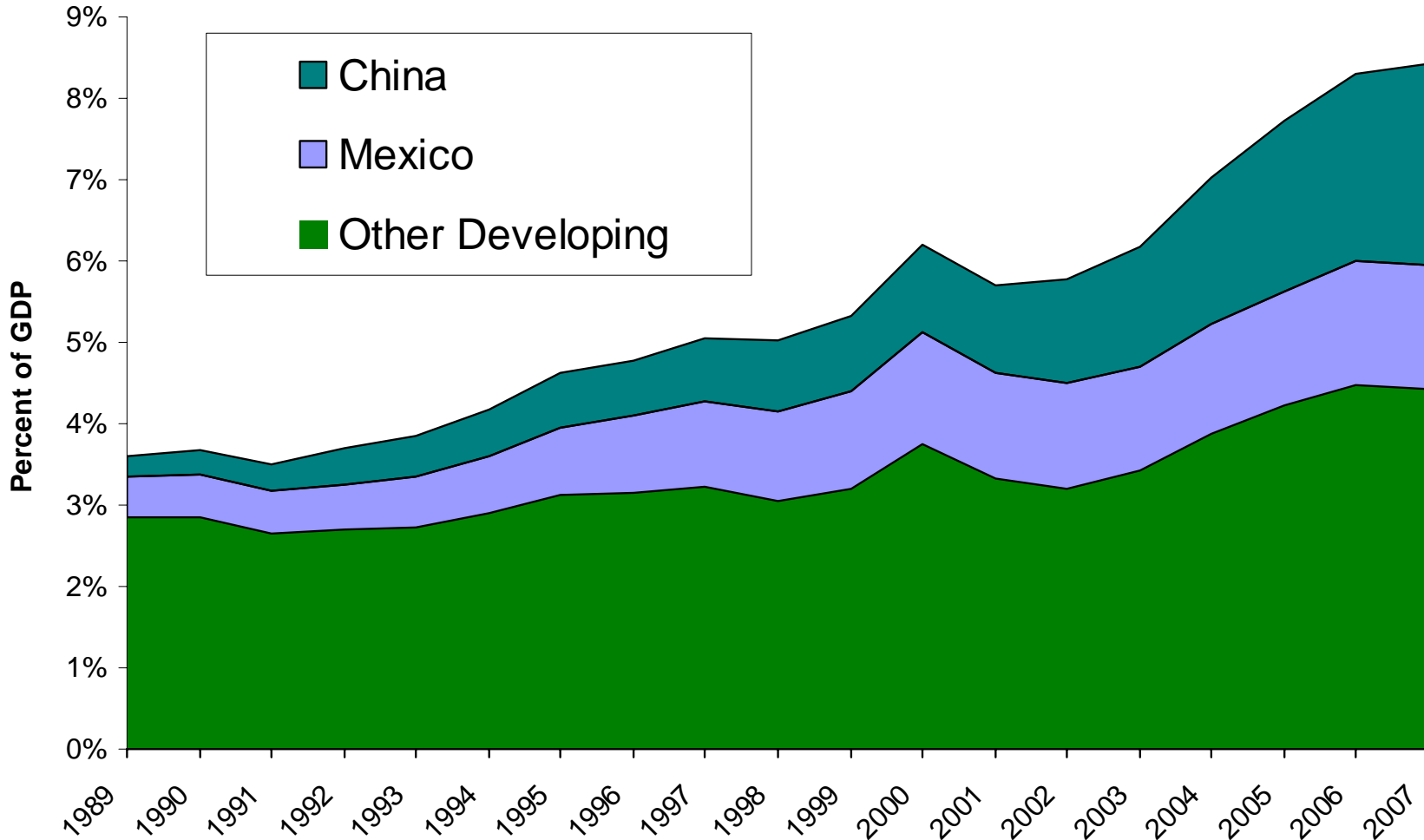
Supportive (32%)



Source: Wall Street Journal

Protectionist Backlash

U.S. Imports from Developing Nations 1989-2007



Achieving Progressive Reform

- Individual Income Taxes

Achieving Progressive Reform

■ Individual Income Taxes

- Repeal or let expire Bush tax cuts for top earners
- Robust tax on estates and bequests
- Switch from deductions to credits

Achieving Progressive Reform

- Individual Income Taxes
- Corporate Taxes

Achieving Progressive Reform

- Individual Income Taxes
- Corporate Taxes
 - Complex, inefficient, fail to raise intended revenue
 - Broaden base, lower rates
 - Problems to address include:
 - Book-tax income gap
 - Treatment of foreign source income
 - Treatment of different types of investment

Achieving Progressive Reform

- Individual Income Taxes
- Corporate Taxes
- Simplification

Achieving Progressive Reform

- Individual Income Taxes
- Corporate Taxes
- Simplification
 - Consolidate subsidies with similar purposes
 - Return-free filing
 - AMT reform

Achieving Progressive Reform

- Individual Income Taxes
- Corporate Taxes
- Simplification
- Compliance

Achieving Progressive Reform

- Individual Income Taxes
- Corporate Taxes
- Simplification
- Compliance
 - Enhanced enforcement
 - Improved reporting
 - Improved withholding requirements

Conclusion

- Recession poses new challenges
- Need to address fiscal imbalances long term
- Progressive tax reform
 - Share gains of growth more broadly
 - Raise revenue
 - Shore up support for globalization policies that will boost long-term growth