

NATIONAL REVIEW

The candidates don't seem to know it, but we're already soaking the rich.

Michael Tanner

June 22, 2016

Expect to hear a lot about inequality on the campaign trail this fall. Hillary Clinton has practically stolen Bernie Sanders's entire playbook on the subject, and she has warned that we might be headed back to "the Gilded Age of the robber barons." Meanwhile, Donald Trump doesn't actually use the term inequality — he doesn't seem to like big words — but his campaign is built on resentment — on the idea that the rich elites have been profiting at the expense of the poor and middle class. This is all moving stuff, especially coming from the Duchess of Chappaqua and the Doyen of Trump University.

But for all the political fanfare, new data just released by the Congressional Budget Office (CBO) suggest that inequality is nowhere near the problem it's being portrayed as.

It is true that top of the spectrum earns a huge share of American income. Well, duh! That's why they're rich. According to the CBO, in 2013 the top 1 percent of Americans earned 15 percent of pre-tax U.S. income, while the top quintile outside that 1 percent took in 37.6 percent. Hardly seems fair, right?

But that top fifth outside the 1 percent also pays 43.6 percent of federal taxes. And the top 1 percent? They pay more than a quarter of all federal taxes. That's a combined total of 69 percent, meaning that the bottom 80 percent of American earners pays less than a third of federal taxes. This includes not just federal income taxes, where the rich pay an even more disproportionate amount, but all federal taxes, including payroll, corporate, and excise taxes. It would seem the rich actually do pay their fair share — and more.

In fact, the top 1 percent faced an average federal tax rate of 34 percent, the highest since 1996 and the sixth highest since the end of Jimmy Carter's presidency. Meanwhile, the middle class pays an average federal tax rate of less than 14 percent. We are already doing a pretty good job of soaking the rich.

And when you add in government benefits and transfer payments, the amount of redistribution in our system becomes even more striking. In fact, transfer payments have surged over the past few decades. The average amount of transfers per household has more than doubled since 1989, increasing from \$6,900 to \$13,900 (in 2013 dollars). Some of this has come about because there are now more elderly households that receive benefits from Social Security and Medicare, but

the pattern holds even when the elderly are excluded. Childless households received an average of \$4,000 in transfers in 2000; by 2013, this figure had risen to \$6,500. Households with children saw an increase from \$4,600 to \$9,000 over the same period.

Moreover, we are not talking about welfare recipients. The increase in federal payments is not primarily the result of more payments to the poor. Average transfers to the middle three quintiles of households with children (that is, the middle class) have roughly doubled since the turn of the century.

In fact, the bottom 60 percent of American households receive more in government benefits and transfers than they pay in federal taxes. The bottom 20 percent receive \$8,800 more than they pay in federal taxes. And the middle quintile receives an average net benefit of \$7,800. The welfare state: It is us. On the other hand, the top 1 percent of earners pay an average of \$521,700 more in federal taxes than they receive in transfers.

Talk of soaking the rich may be good politics. He who would rob Peter to pay Paul can usually count on Paul's support. Talk of soaking the rich may be good politics. He who would rob Peter to pay Paul can usually count on Paul's support. All the more so when most of us are Pauls and the handful of Peters are people we love to hate.

On the other hand, it may be more difficult than we think to get Peter to pay. The rich, it turns out, are somewhat reluctant to be soaked. Or as an economist would put it, the elasticity of taxable income is high for this group. As tax rates go up, not only do they work and invest less, but they also find ways to report less income.

Clinton and Trump may want to soak the rich more than we already do. But as a long-term economic strategy, it's not going to work.

Michael Tanner is a senior fellow at the Cato Institute and the author of [Going for Broke: Deficits, Debt, and the Entitlement Crisis](#). You can follow him on Twitter @mtannercato, or on his blog, [TannerOnPolicy.com](#).