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How Much Does the U.S. Fiscal System Redistribute?

Based on BFI Working Paper 2024-147, "How Much Does the U.S. Fiscal System Redistribute?" by Thomas Coleman and David Weisbach, University of Chicago

The U.S. tax and transfer system has become more redistributive in recent decades, not less; this finding holds across multiple ways of measuring and defining income, households, and transfers.

One of the most important—and politically contentious—US policy debates in recent decades involves income inequality, including whether the country's fiscal (or tax) system has become less progressive and less redistributive over recent decades and, thus, exacerbates inequality. To the point: Many reporters, economists, and policymakers believe that the reduced top income and corporate tax rates initiated in the early 1980s and continued today are key to understanding the subsequent increase in income inequality.

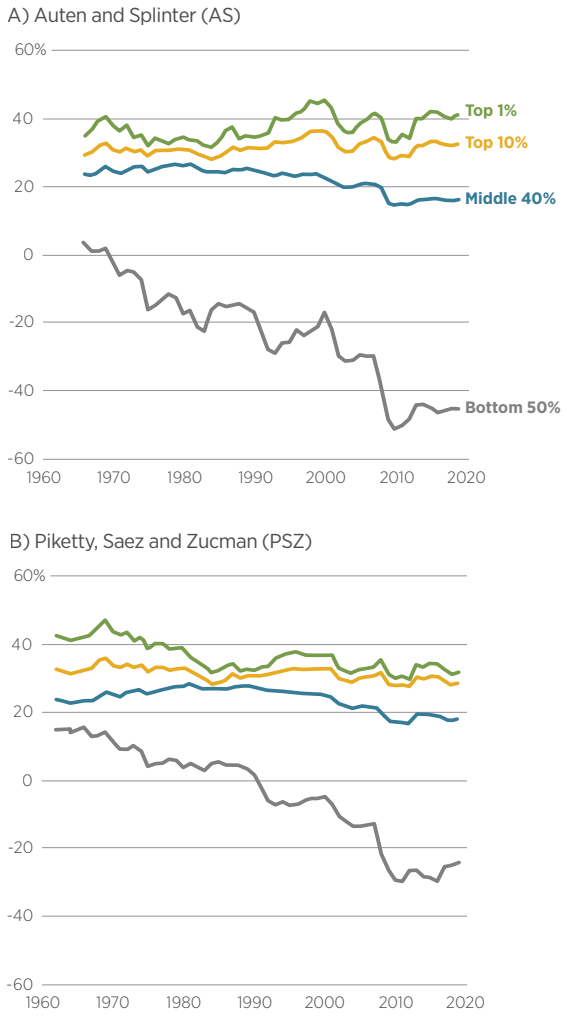
For some researchers, these lower tax rates—especially on income for the top 1% and 0.1%, who have experienced income gains—have upended the U.S. tax system and made it **less progressive or possibly even regressive**, a serious charge against a tax system founded on the principle that the more you earn, the more you pay. This paper challenges that emerging consensus by reassessing what and how data are measured to find that the US tax and transfer system redistributes more now than it did in the last several decades.

The authors come to this conclusion by reviewing the methodologies of recent research, and by focusing on all income levels, not just the top 1%. The authors also describe the many ways that differing measurements and definitions can result in dissimilar conclusions. Their findings are best described via the accompanying figures,

Progressive (tax system): A system wherein the average tax rate increases as income increases.

Regressive (tax system): A system wherein the average tax rate goes down as income increases.

Figure 1 · Tax and Transfer Rates, AS (1966-2019) vs. PSZ (1962-2019)



Note: Details for data sources are in BFI Working Paper 2024-147.

which incorporate data from three recent research efforts that estimate changes to progressivity and redistribution and that make their data publicly available—Congressional Budget Office (CBO) 2022; Auten and Splinter (AS) 2024; and Piketty, Saez, and Zucman (PSZ) 2018).

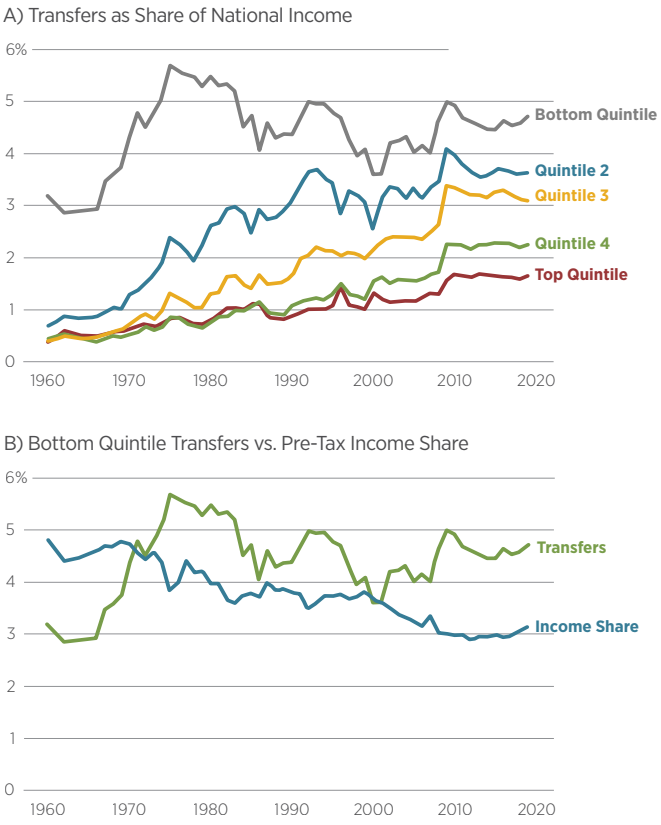
The first figure compares the tax and transfer rates produced by AS and PSZ. PSZ only provide consistent rankings for the bottom 50 percent, the 50-90 percent (which they call the middle 40 percent), the top 10 percent, the top 1 percent, and smaller groupings at the top. To compare the results to PSZ, the authors use the AS data for the same groups. Data from CBO (2022) yield the same or even stronger results when the population is divided into quintiles. The figure shows the tax and transfer rates for each of these groups from 1966 (the first year of consistent data in AS) until 2019.

- The key finding in the first figure is that both datasets show that the crucial change over the last 60 years has been the dramatic increase in transfers to the bottom half of the population. This increase swamps the changes in tax rates for the top half of the population.

The second figure helps us understand how the fiscal system has increased transfers to bottom income groups. The Panel A shows transfers as a share of national income. Panel B drills further down, showing just the transfers to the bottom quintile along with its income share.

- The second figure illustrates that the downward distribution of income is somewhat nuanced. Although total transfers have gone up over time (from 5.2% of national income in 1966 to 15.3% of national income in 2019), transfers to the bottom quintile peaked in 1975 at 5.7% of national income and declined since then to 4.7% of national income. The increase in transfers as a share of national income has instead largely accrued to the middle quintiles.

Figure 2 · Share of Transfers for Each Quintile and for Bottom Quintile, 1960-2019



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Bottom line: Policymakers take note—there is broad agreement among researchers that net transfer rates to bottom incomes have increased, and the size of those increases swamp any changes at the top. Relatedly, the tax and transfer system has become more redistributive over the last half century, with much of that increase occurring in the last several decades.

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