This chart by Mercatus Center Senior Research Fellow Veronique de Rugy shows the historical path of federal taxation as a percentage of GDP using the earliest records available from the Office of Management and Budget and top marginal tax rate data from the Tax Policy Center. In red, the historical path of the highest marginal income tax rates (right axis), in green, historical federal revenues as percentages of GDP (left axis). From 1930 to 2010, tax revenue collection in the United States has never topped 20.9% of GDP, averaging 16.5% of GDP over these 80 years. This comes despite the drastic historical fluctuation in the rate of taxes on the wealthiest Americans.

During the time period examined above, the rate of income taxation on the highest earning Americans has fluctuated drastically, from 25% of income in 1930 to 92% of income in the early 1950’s. Despite these vast differences in these top marginal rates, the total percentage of GDP that the federal government has collected in revenue has changed little. As we move toward debt reduction, it is critical to keep the long-term of revenues in the United States in mind.

In recent years, spending, not revenues, has deviated from its historical path; spending must be addressed to rectify the budget.

Veronique de Rugy explains why we can’t tax our way out of the debt on Bloomberg TV.

To Contact Dr. de Rugy, email rlandauer@gmu.edu or call 202.550.9246.