



IS AMERICA'S TAX SYSTEM FAIR?

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Tax the rich some more.

That recommendation comes from many politicians.

It seems obvious to tax the rich. We tell ourselves they won't miss that little extra bit we take. And after all, it's only right that they pay their fair share.

The technical name for taxing the rich more is progressivity. And it's hard to oppose a concept that shares its roots with an optimistic word like progress. But this surface logic obscures some important truths about progressivity. So let's stand back.

The first thing we see when we take our distance is surprising. It is that many people don't know what progressivity is.

Supposing you pay five dollars in tax on your income. A rich man pays ten dollars, because he makes twice as much as you. This arrangement sounds like progress, right?

But that is not a progressive tax schedule. It is a proportional one—a true fair share. What was once known as the tithe, but is now commonly called now a flat tax. Under a flat tax, everyone pays the same rate no matter what they earn.

In the 1980's a poll by political scientist Karlyn Keene suggested that Americans thought flat proportional taxes were fair taxes. And as we know from architecture and art, humans are wired to like proportionality. A progressive tax structure by contrast is actually disproportionate.

Progressivity resembles a flight of stairs. Each individual starts out at the bottom, paying the same rate, say 10 percent. When his income rises to a certain line, the taxpayer moves up a step on the staircase and his rate goes up to, say 20 percent, but only for the share of income past that line. At the next step, the rate goes up again, say to 30 percent, but again only for the last stair of income. And so on.

But the prospect of going up all those stairs tires the climber. Surveying the rates at the top, workers stop chasing a promotion they once thought they wanted. Why bother? The taxman will take the money anyhow. When workers or professionals stall on the stairs, the government loses money, but so do regular people. For when the person who decides not to earn more money is a business owner, the result of that decision is a smaller company and fewer jobs for others.

Of course some people do keep climbing, no matter what. Some people are wired that way. And those taxpayers can get to the point where they pay half of what they earn—especially in high tax states—which leads to the greatest argument against the progressivity staircase: Progressivity is unjust. People have a right to what they earn—even Californians and New Yorkers.

But politicians like being able to say that they are ensuring that the rich pay their share. And nothing proves their anti-rich credentials like sponsoring fresh legislation for more progressivity. So for years, President after President, Democrat and Republican, and Congress after Congress have passed law after law to make the income tax more progressive.

President Richard Nixon signed a law that took nine million taxpayers at the bottom end off the income tax staircase entirely. Other presidents like Ronald Reagan and Bill Clinton took a few more million out. George W. Bush removed even more. So today nearly half of Americans pay no income tax at all. And 10 percent of earners pay over 70 percent of all income tax. Talk about disproportionate.

Here we get to a genuine question of fairness. There's something wrong with our democracy when people who pay no tax can vote for tax increases on fellow citizens who already do pay tax.

But reversing a century of progressivity won't be easy. For when you cut taxes for all in a progressive rate structure, the rich necessarily get a larger tax break. That is so because they pay a greater share to begin with, and advocating "larger breaks for the rich" is not a popular political move, to put it mildly.

Many economists make the case for a true flat tax. Others tout a sales tax. Consumers would then pay taxes only on what they buy.

Either way, it's time for politicians to give up their small talk about the earned income credit, the child credit, and so on, and get out their saws to dismantle the big staircase—our disproportionate income tax.

The country could then try a tax code that's simple and easy to navigate, like a new road that runs straight ahead into the horizon.

Many of us would call that progress.

I'm Amity Shlaes for Prager University.