

Failure of the Progressive Tax

by Kenneth A. Kuhn

April 2, 2011 (a few updates Aug. 5, 2012)

The American Federal income tax began its progressive life in 1913 with high incomers paying a top rate of seven percent. Targeting a tax towards the minority high incomers is popular with the majority of non high incomers as they perceive to enjoy the benefits of what someone else pays for. Few realize that many high incomers have the ability to pass the cost of progressive taxes to the lower income levels via price for goods or services. Thus, the progressive tax is really a method to tax the entire population with few ever figuring that out.

Tea Party claims of burdensome tax on the middle class and liberal claims of loopholes and tax cuts for the rich notwithstanding, to this day the majority of income tax is paid by high incomers. In this era of unimaginable Federal deficits the solution proposed is to again increase taxes on the rich. The public clamors for this and that is the fundamental problem. The failure of the progressive tax is that it has conditioned the population into thinking *someone else should pay*. America is running out of high incomers to pay the tax and it is going to take some crafty methods in proposed tax reform efforts to impose taxes on the broad population without their being aware of it. The irony is that the progressive income tax has become an obstacle to raising tax revenue. Taxes on lower incomers are low and inflexible upwards. It is futile to raise taxes on high incomers with the means to alter their taxable income downwards as a number state governments have discovered in recent years as new soak the rich taxes backfired resulting in lower tax collections.

Government dependency on a small group of people for the majority of tax revenue is very unstable as the progressive tax magnifies small fluctuations in the economy resulting in either tax windfalls in good years or huge tax deficits in bad years. The deficits are made worse by using economic extrapolations based only on the good years. The general public wonders why there are sudden huge deficits as their personal taxes typically have not changed much. If they would ever connect the dots they would realize that the entire tax collected from their population group is only a small part of the total. Believe it or not, the rich really are paying taxes (the majority of the total collected) but they can't pay taxes on income they do not make in a down year – thus the budget deficits. An op-ed piece in The Sacramento Bee in 2003 addressing the deficit in the California state budget opened with, “If only the rich would get richer. And stay that way (<http://www.caltax.org/documents/2003/Weintraub-AsFewRichGuys1-5-03.pdf>).”

In poll after poll Americans say they want the government to do more to take care of infrastructure, education, and social programs – provided someone else pays the taxes for it. Roads are crumbling causing us higher car maintenance expense but the obvious solution of raising the gas tax to pay for road repairs is rejected. Families want top schools for their children but balk at any personal cost. Bloated entitlement programs are too sacred to cut. In person on the street interviews and in letters to newspaper editors it is very common for people to describe how all problems could be solved if the “huge tax

Failure of the Progressive Tax

burden” on the middle class and even the poor were shifted to the rich and businesses who presumably pay little if any tax. Many “Fair Tax” proposals are just ruses to put a tax on someone else while feeling good about paying a low personal “fair” tax.

We complain about high income levels of the rich and wish them to make less money, but yet pay even higher taxes so we don’t have to. Few make the connection that a natural consequence of progressive taxes is that high income is necessary in order to have high taxes. Think about it – without such obscenely high salaries then tax collections would radically drop and the only solution would be significantly higher taxes for the average person. Ask yourself the question, “How much more taxes would I be willing to pay in exchange for a significant reduction in the obscene incomes of the rich?” If you do not understand the question then you do not understand the failure. It is ironic that the typical person who accuses the rich of being greedy never makes the connection of personal greed in desiring that the tax burden fall mostly on the rich.

For many years Americans have been enjoying the good life paid for by others and particularly via deficit spending so that even the rich have not been totally burdened. Numerous seers have been telling us that this situation is not sustainable. We do not listen because it is not our immediate problem. If things become too bad then make taxes more progressive on the rich. Problem solved.

Americans on the left and right complain about massive deficit spending and accumulative debt that in theory will have to be paid by future taxpayers (i.e. their children). Each side, desiring to keep its own benefits, blames the other which conveniently masquerades the fact that both sides collectively are the problem. But if one is not paying substantial taxes then there is no point in being overly concerned as the bill will fall on someone else. Most families below upper middle class pay only a relatively low net Federal income tax if at all even though they often claim to be overtaxed. It is no surprise that they demonstrate their lack of concern via their vote to continue rampant spending policies. In keeping with progressive concepts these Americans like to “talk the talk” provided someone else “walks the walk.”

Americans assume that all business is under-taxed when they hear of some mechanism popularly referred to as a loophole to reduce the relatively American high tax rate on business. Americans want businesses to pay more taxes but refrain from passing the cost of taxes on to consumers via price. Think about it – where else would that tax money come from? Yet those same Americans do not complain when similar loopholes (child tax credit, earned income credit, home mortgage deduction, health savings account, etc.) reduce their personal taxes. Americans say they need these deductions and more as it is impossible to live without them. If true then they need to question why this is so for few of these deductions existed decades ago when America was enjoying high growth and Federal taxes and deficits were less. As America’s experiment with socialism deepens, higher taxes are going to be required by all whether directly or built into the price of goods and services. The third choice of running up the national debt as we have been doing will eventually expire.

Failure of the Progressive Tax

Certain wealthy suppliers make high incomes from government expenditures on war materials or in supplying products or services for questionable government programs. They depend on the progressive tax to prevent the majority of low taxpayers from being overly upset about excess government spending either for programs with dubious value or paying too much for programs with broad value. Certain benefits for low incomers are for the most part a lucrative conduit to funnel tax money to privileged businesses. High income beneficiaries prefer and even advocate for the progressive tax because their net income is enhanced by the reckless government spending it enables. Their net income would be less under a flatter tax system where government spending would be constrained by the ire of numerous taxpayers – i.e. voters.

There are rumors of tax reform suggesting that the new tax code will be simpler and more progressive. If true then the simpler part is a step in the right direction. The more progressive part is a continued step in the wrong direction. It is a sure bet to predict that as in the past, the end result will be even higher Federal spending and deficits with lower visible taxes for the majority.

Perhaps if taxes were flatter making the majority of voters more painfully aware of the real tax burden, they would take a more serious interest in government finance and vote against politicians who would lead us into unnecessary wars and dupe us with all sorts of questionable government programs. The radical step of flattening the progressive tax would give the people inspired democratic authority over their politicians as personal taxes are voted rather than those of someone else.

A mother in the area where I live recently summarized the failure in a news interview concerning a vote to raise property taxes for schools when she said, "I don't think I should have to pay taxes so my children can go to school." I rest my case.