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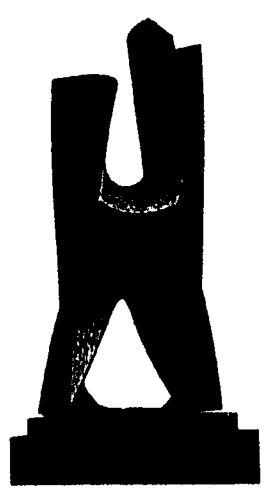

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In turning again to a consideration of the case for progressive taxation in our society, the most important development since publication of *The Uneasy Case for Progressive Taxation*[1] in the early fifties has been the emergence of a more or less general consensus that the state is to assure nearly everyone the resources for some minimum standard of life. The question now to be explored is whether implementation of this aspect of the welfare state serves to strengthen the argument for distributing the tax burden on a progressive basis.

I

At the outset it is once again important to clarify the usage of the term "progressive taxation." The reference in this discussion is to the total system and not to any particular tax. Progression in essence concerns the relationship between the distribution of the aggregate burden among taxpayers and the distribution of what might be thought of as their taxable capacity. The relative capacities of taxpayers can plausibly be derived by comparing incomes or expenditures or wealth. In our society, progressivity usually is described and measured against a background of income. For the discussion ahead it is sufficient to label as "progressive" any system that takes in taxes a relatively larger

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1. Walter J. Blum and Harry Kalven, Jr., *The Uneasy Case for Progressive Taxation.* University of Chicago Press (1953).

share of income from the more affluent than from the less affluent.

Admittedly this is said very quickly. Wide differences of view exist as to the most appropriate concept of income for comparing taxpayers. There are, in addition, troublesome questions whether the proper unit of comparison is the individual, the marital union, the household or something else; whether the proper period of income measurement is a single year or a longer time; and whether all taxes in fact can be adequately weighed against an income base. It is particularly difficult to translate wealth transfer taxes, such as those imposed on gifts and estates, into levies scaled against income. Finally, the definition of progression must take account of the likelihood that the incidence of a particular tax differs significantly from one taxpayer to another through the operation of market forces. Despite these difficulties, it is useful and convenient to talk about the whole system as though it consisted of only an income tax that is not shifted from those who bear the burden directly or through attribution.

An additional oversimplification needs to be introduced in order to make the inquiry more manageable. There are many possible patterns for a progressive tax on income. One polar pattern consists of levying no tax on the poor —meaning those whose incomes are below the minimum level fixed by legislation—and assessing all other taxpayers at a flat rate on any income in excess of that level. In essence this arrangement, known technically as a "degressive" tax, utilizes two rates. The exempted income —that below the minimum level—is taxed at a zero rate while all income over and above the exempted amount is taxed at a uniform positive rate. The zero rate for exempted income results in a progressive tax among those whose incomes exceed the exemption. This comes about because the larger one's total income, the greater the fraction of it that is subject to the positive rate of tax and the smaller the fraction that is subject to the zero rate. As income increases, the effective rate of tax on that income approaches (but never quite reaches) the uniform positive rate of tax.

The other polar pattern is a "very high" tax on the incomes of the affluent, a "substantial" (but not "heavy") tax on the middle class, and no tax on the poor. This may be called "steep progression." A middle pattern can loosely be described as consisting of a "high" (but not "very high") tax on the affluent, a "heavy" (but not "high") tax on the middle class, and no tax on the poor. This may be called "moderate progression". For purposes of analysis the arguments over progressive taxation to a large degree can be reduced to arguments over versions of these three arrangements.

All three of the basic patterns of progression are of course in contrast to proportionate taxation. Under such a plan every taxpayer, regardless of total income, pays in tax the same percentage of that income. In an earlier era, before there was general agreement that the government is to underwrite a minimum standard of living for nearly everyone, it was quite common to argue in favor of proportion as a principle. But after the new welfare consensus had been implemented, the strict proportion principle became hard to defend. The combination of a commitment to a minimum standard of living plus strict proportion in taxation would put the state in the awkward position of simultaneously taxing the poor and providing them with greater support benefits to offset the collection of those taxes. In the regime of a welfare state, the realistic version of proportionate taxation is the degressive pattern of progression—that which calls for exempting the poor and taxing all income above the minimum level at one rate. The more lively question, then, concerns the choice to be made among the three basic patterns of progression.

The question can be probed by focusing on the minimum support commitment to the poor. It might be asked: Should the resources made available to the poor be obtained by resorting to steep progression that imposes the taxes on high incomes, or by spreading the burden proportionately on all incomes in excess of the minimum level, or by adopting moderate progression—a position that lies near the middle of these two poles? Conferring support benefits on the poor by itself acts to reduce the economic inequality between those who are below the minimum line and all other persons in the society. The narrower question for tax policy concerns the extent to which the financing of these benefits should be utilized as an occasion for altering the distribution of incomes over and above the minimum level.

This statement of the tax issue has the virtue of confronting a recent proposal that has attracted considerable attention.[2] The suggested program calls for putting a floor under support benefits so that virtually everyone will have an income (in kind or in dollars) not less than half the median income in the society and for covering the full cost of all these incremental benefits solely by increasing the taxes payable on high incomes. The plan would accomplish two things. It would transfer resources from the group above to the group below the "poverty line" as legislatively defined—a matter of gross redistribution policy which is outside the scope of this inquiry. And it would reduce the economic position of the affluent vis-a-vis everyone lower on the economic ladder, making the tax system more steeply progressive. This latter aspect of the plan highlights the central question to be explored: How should the cost of all support benefits to the poor be distributed among the non-poor?

In addressing the issue, it is useful and not wholly unrealistic to assume that the total tax burden in society is increased by the cost of these support benefits. It is also instructive to assume that such costs can be separated from the cost of all other functions undertaken by government.

2. Arthur M. Okun, *Equality and Efficiency: The Big Tradeoff*. The Brookings Institution (1975).

II

There are several lines of argument for concentrating on the affluent the burden of underwriting the economic position of the poor. Some have been put forward explicitly; others can only be surmised from rather general positions. A considerable degree of overlap in stating them seems inevitable. What follows is a best effort to capture and then examine the various points that can be offered in behalf of the steep progression position.

(1) General agreement on a proper criterion for setting a minimum standard of living to be underwritten by the government can never be reached. Of necessity the line must reflect a wide-ranging political compromise. Under these conditions it is unseemly for the government to force the transfer of a dollar from a taxpayer not far above the line to persons somewhere below the line. Such an undesirable consequence can be avoided, it is contended, by placing the tax burden squarely on the affluent instead of spreading it more nearly in proportion to income among all those who are not in poverty.

Although arresting, this argument is hardly distinctive to support for the poor. Every category of government spending reflects a political compromise; no area is or can be controlled by an external standard. In this respect the case for steep progressive taxation is not advanced by emphasizing the welfare nature of expenditures associated with the collection of taxes.

(2) Adequate support benefits for the poor will not be legislated if a proportionate part or substantial part of the corresponding tax burden is put upon the middle class, particularly the lower end of the middle class. This contention is the political realism counterpart of the previous point. The reality, so the argument runs, is that there will be adequate support for the poor only if the cost is placed in a notably disproportionate manner on the affluent.

This relationship cannot be established by citation to history. But even if it were wellgrounded in experience, the point would not help in formulating a sound tax policy. Suppose that the middle class did resist raising the support level for the poor because of objections to paying higher taxes for this purpose. The existence of such a situation would instruct us more on the subject of designing the welfare program than on the question of a proper tax policy. It most directly would put into issue the kind of consensus which, in our society, is best for deciding on the contours of the basic support program. Any bearing on tax policy is of a negative sort: the notion seems to be that in focusing on tax policy, our vision should be intentionally blurred in order to escape facing the hard problem of drawing the critical support line in dealing with the poor.

(3) A causal connection exists between the fact that there are both the poor and the affluent in our society. Affluence, according to the most simplistic form of the argument, somehow rests on impoverishing others who are less skillful or fortunate. It is, therefore, only right that the affluent should be charged with the cost of maintaining the poor at a minimum standard of living.

Such an argument is not easily answered because it is so lacking in specificity and reasoning. Perhaps it is intended to play on the guilt of the non-poor; perhaps it is designed to be mere rhetoric that might touch sensitive emotions. But both economic analysis and common observation indicate that in our society (at least since the abolition of slavery) the affluent do not have the economic power or means or motivation to prevent individuals from rising above poverty. A satisfactory explanation of the survival of poverty is bound to be complicated, taking account of factors as diverse as natural disadvantages, family attitudes and composition, personal misfortune, and misguided laws. Understanding of the situation is not helped by blaming poverty on an economic conspiracy among the affluent. Indeed, the relationship between poverty and riches generally runs in the other direction: most affluence is based on economic activity that raised the economic level of the society and on average benefitted its members.

(4) The affluent, by using their wealth to exercise a disproportionate share of political power, prevent the passage of legislation that would reduce (if not eradicate) poverty. The crux of the contention is that the affluent "corrupt" the democratic political process and exert too much influence over the course of governmental events. It is impractical to police their activities directly because the "misuse" of wealth is not easily detected. Reducing the resources available to the affluent, reformers urge, will tend to redress the political "imbalance" and improve the position of those at the bottom of the economic scale.

This point in some respects parallels the notion that affluence rests on economic repression of the poor. The poor under this account are impoverished because the affluent turn their wealth into political force that works against programs for uplifting those who are handicapped in the economic race. Thus it is said that the political reach of the affluent holds down public spending on such matters as general education, health maintenance and job training—all of which presumably would tend to alleviate poverty.

It is by no means clear that the affluent in fact have predominated in opposing increased public spending in these areas. There is considerable evidence suggesting that on balance the middle class has been most cautious about moves to initiate or expand a variety of programs that require new expenditures by government. While the cynic might attribute this reaction to propaganda engineered by the affluent, an explanation that does not denigrate the intelligence of a broad spectrum of society is more plausible. Government programs often tend to start small and then grow vastly in size. As expenditures by government increase, the resources possessed by the affluent are simply not large enough to offset the cost. Members of the middle class can readily recognize that eventually they will have to bear a large share of the taxes needed to cover the cost of programs being proposed.

Moreover, the argument that affluence "distorts" the distribution of political power is not strengthened by an undertaking to provide nearly everyone with a minimum level of resources. Whatever force the point may carry —and it seems to have relatively little thrust in a broadly open society in which political power can be traced to sources as diverse as personal charisma, intelligence, skill at organizing people, and sheer energy—the political position of the affluent would seem to be smaller rather than greater once a commitment to the poor has been instituted. It is possible to argue that without a support floor the presence of the poor would constitute a higher threat of revolution and that a support program, by diminishing that threat, augments the political power of the affluent. Such reasoning, however, borders on being perverse. Is it reasonable to think that the relative tax burden placed on the affluent should be increased *because* the economic condition of the poor has improved?

These various arguments, taken singularly or in combination, fall far short of showing that the use of public funds to undergird the poor improves the case for steep progression.

III

It is time to turn the inquiry around. Is there ground for believing that the case for steep progression is weaker in the context of financing a welfare program than in raising revenue for all other expenditures by government?

Several lines of thought merit exploration.

(1) Economic disincentives are likely to be greater in the aggregate if taxes are levied to finance redistribution of resources to the poor as distinguished from other types of government programs. This observation is not to imply that the purpose for which a given number of dollars are taken from a taxpayer will have a

bearing on his economic conduct. The point, more precisely, rests on the inevitability that any broad-scale transfer of resources to the poor will result in penalizing (or "taxing") the economic activity of the recipients. Such a tax is not imposed by choice: rather, it will be embodied in any feasible transfer program because, as the un-subsidized income of one who qualifies for support increases, the amount to be furnished him by the government under the plan will decrease. Moreover, the penalty tax will affect some who are above the legislatively defined poverty line insofar as support payments are made to them in order to avoid imposing a prohibitively high negative tax on marginal income as the dividing line is approached. This disincentive effect becomes more pronounced as the poverty line is set at a higher level, largely because the penalty will be felt over a larger range of incomes and by more persons. In any event the total economic disincentive involved in a redistributional measure is composed of the negative impact of the actual levy on those taxpayers who pay for the transfer of resources and the negative impact of the "penalty tax" on those who are the beneficiaries of the program. It is this dual effect that suggests special caution in relying on steeply progressive taxes to cover the cost of resource transfers to the poor.

(2) Apart from the disincentive effect of any feasible minimum support program, there may well be another undesirable economic consequence to be considered in levying taxes on the affluent to finance the transfer of resources. The recipients of support are not likely to be savers; indeed, the minimum income level reasonably should be fixed on the assumption that the beneficiaries will need to spend all their income on goods and services. The non-poor of course on balance do save. In general, however, the affluent save proportionately more than the middle class. These relationships suggest that a massive redistribution of income from the affluent to the poor will reduce the aggregate amount of private saving in the economy. In

adjusting to higher rates of tax, some of the wealthy likely will respond by spending less; but on the whole the affluent predictably will respond in part by saving less. While any large scale redistribution from the non-poor to the poor will tend to have an adverse impact on the total of private saving, this effect is likely to be intensified if the transfer is from the affluent to the poor.

The importance of saving is well understood and need not be elaborated again. One observation, however, is particularly pertinent in this discussion. The capital base, over time, depends upon the level of saving. Income in the society—including the income of the poor—is closely related to the size of that capital base.

A fall in private saving can in theory be offset by a comparable increase in saving by government. There is good reason to be skeptical about this prospect. Saving by government calls for a budgetary surplus. Most of the pressures in modern times, it should be obvious, push in the direction of operating the public sector at a deficit. The decline in the purchasing power of the dollar bears forceful witness to this conclusion.

(3) An inherent ambiguity about the concept of a minimum standard of living might inadvertently result in intensifying the bite of steep progressive taxation. It is tempting to define the minimum standard in terms of the existing profile of income distribution; indeed, the recent proposal noted earlier calls for bringing everyone up to half the existing median income. If our society continues to develop economically, the median income and hence the proposed support level, will accordingly go higher. It is probable that the total amount of support payments will also rise if the support level is defined with reference to median income or any comparable standard. And if the support payments are to be covered by taxes on the affluent, as urged in the proposal, the total tax taken from that group will likewise move up.

In projecting the impact that such an increase might have on the steepness of progression, account must also be taken of any increase in the incomes of the affluent associated with improvement in economic conditions. But it seems most unlikely that incomes at the top will rise relatively more rapidly than payments required under a transfer program in which the support level is defined in comparative terms. There is thus a strong probability that, in the course of time, the disincentive and redistributional effects of the arrangement would tend automatically to expand as the productivity of the economy improved.

(4) A program to provide minimum support for the poor is almost certain to augment the role of government in our society. One can conceive of an income support system that is designed to function more or less mechanically, with payments being based upon factors of an objective nature. In practice, however, the operation is apt to be of a different character. Even if all benefits are in the form of cash payments—a most unlikely arrangement—the plan would require a great deal of administrative implementation. We know enough about welfare measures to be confident that a large bureaucracy goes along with the best of plans.

What, it might be asked, does this fact have to do with financing welfare benefits through taxes that are steeply progressive? From one viewpoint the relationship is close and important. For those who are troubled that an enlargement of the role and power of government might endanger the vitality of a libertarian or decentralized society, recourse to steep progression in the welfare setting appears to pose a special threat. Many private or quasi-public organizations outside of government depend significantly on financial support from the affluent. Steep progression will undermine that support, unless the high rates of taxation continue to be powerfully offset by tax deductions and credits for contributions. Loss of support very likely will lead to a contraction or termination of these institutions; possibly it might lead to a take-over of their functions by the government or to making them dependent on appropriations enacted and controlled through the political process.

In short, a program to transfer resources from the affluent to the poor can be expected to both strengthen the power of government and weaken the power of potential counterbalancing or moderating forces in the society. The danger is that a crossover point will be reached at which the outside forces are unable to remain viable.

(5) A plan that taxes the affluent in order to transfer resources to the poor may subtly serve to alter the character of society by markedly changing the accepted meaning of private property. The nature of the justification which is perceived to underlie the tax pattern might in this respect turn out to have a significance that transcends the pattern itself.

Until relatively recent times, almost all the accepted justifications for progression avoided embracing redistribution of economic things; and even the few commentators who supported progression on redistributive grounds invariably stopped short of proposing that the government explicitly increase taxes on the affluent in order to bestow more resources on the poor. The earlier justifications were predicated on a broad meaning of private property that was strongly and generally held: a person is entitled to his property but the government may take from him an amount that is thought to be a fair sharing of the cost of discharging public functions. Against that backdrop consider the proposition that the affluent are to be taxed as part of a plan to raise the poor to a higher economic level. This underpinning for progression can readily be read in a broader manner—one that would give a quite radically different meaning to the notion of private property. The larger message in essence seems to be that an individual is entitled to keep only that portion of his resources which the government decides not to take for redistributional purposes.

A shift of this kind is likely to have wide ramifications. The very nature of the dialogue concerning income and wealth can be expected to change. As the legitimacy of property rights and claims to income are subjected to repeated questioning, the politics of envy will increase and may well come to predominate.

IV

Discussions of progressive taxation are invariably impeded by the difficulty of specifying a criterion for arriving at the appropriate degree of progressivity. There is still considerable vitality to the old aphorism about being at sea without a rudder. When dealing with taxation to cover provision for the poor, the aphorism becomes especially pertinent because the potential governmental expenditures are so very open-ended in nature. For that reason there may well be special attraction in a tax policy formulated along the following line: Whatever the degree of progression that is built into the structure of taxes required to finance all other operations of government, all revenues associated with transfer of resources to the poor are to be collected through application of a degressive pattern of rates. It perhaps may not be too visionary to think that the entire welfare program will be more soundly conceived and more deeply accepted if, in the voting to compel such transfers, all taxpayers having income above the minimum level are required to bear the burden in proportion to that income. By following this principle there might well emerge a better formed consensus—or a kind of super consensus—regarding the proper composition of an overall program for support of the poor.

It is interesting to speculate on why the middle class, meaning everyone between the poor and the affluent, has not embraced with enthusiasm the proposal to place very heavy taxes on the affluent so as to fund a transfer of greater resources to the poor. Various explanations might be offered: the middle class does not understand the proposal, or it has been misled by the affluent and their spokesmen, or it is simply apathetic. The most insightful explanation may well be that the middle class, adhering to many of the values traditionally associated with private property, is making its own realistic assessment of the situation. It may well perceive, however vaguely, that the plan is likely to make serious inroads upon a system that over the years has greatly improved the conditions of life for the class. Put bluntly, members of the middle class may believe that their own self-interests will be served better by a system which radiates the assumption that individuals are entitled to what they own rather than by a system which radiates the assumption that individuals are entitled only to what the government decrees they can keep.

Numerous commentators have elaborated on the theme that there may be little correlation between the income of an individual and the value he contributes to society. Surely these observers are sound in highlighting the deficiencies in the operation of the pricing process and limitations of the market mechanism. They are likewise sound in noting that the marginal value of one person's input will depend on the input of many others. They further are sound in reminding us of the extent to which incomes depend on luck, family conditions, inheritance, educational opportunities and a host of other factors. These observations, however, need to be placed in proper perspective. The position that persons are "entitled" to what they own is obviously a view about justice. Of equal or perhaps greater significance, it is also a view about organizing economic relationships among persons. Material well-being or standing is to a large degree perceived in terms of resources available to the individual free and clear of taxes. A dollar spent by government is not equivalent to a dollar that the taxpayer is free to spend. Perhaps the entitlement principle of organization is not the best one imaginable. But until a clearly better alternative is developed and gains acceptability, actions that undermine it deserve to be met with much skepticism.

V

There is no escaping the conclusion that a pattern of steep progression at high levels of taxation does not blend comfortably into a society that heavily relies on traditional notions of private property and private initiative as energizing forces or tools. This tension emerges most sharply when it is proposed to levy very high taxes on the affluent in order to redistribute resources to the poor. Even if the relationship between taxation and benefit payment is kept in an obscured state, the tension will nevertheless be felt as economic incentives are dampened and rights of ownership in property come to be defined in more restrictive terms.

The case for steeply progressive taxation, particularly to finance the transfer of resources to the poor, may seem easy if one shortsightedly considers only the current end-state of the process that produced the prevailing distribution of income and wealth in our society. But in the not-too-long run the more essential qualities of the society are determined by the processes and institutions by which the distribution as of the moment came about. For those who look beyond the short run, the case for progressive taxation is still likely to seem uneasy.

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